UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
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PURIFIED CARBOXYMETHYLCELLULOSE FROM FINLAND, MEXICO, NETHERLANDS, AND SWEDEN	)	Investigation Nos.: 731-TA-1084-1087 (Preliminary)

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Wednesday,
June 30, 2004

Room 101
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C.

The hearing commenced, pursuant to notice, at 9:31 a.m., before the United States International Trade Commission, Robert Carpenter, Director of Investigations, presiding.

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CYNTHIA TRAINOR, Investigator
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I N D E X

P R O C E E D I N G S

(9:35 a.m.)

MR. CARPENTER: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigation Nos. 731-TA-1084 to 1087 concerning imports of purified carboxymethylcellulose from Finland, Mexico, the Netherlands, and Sweden.

My name is Robert Carpenter; I am the Commission's Director of Investigations, and I will preside at this conference.

Among those present from the Commission staff are from my far right: Diane Mazur, the supervisory investigator; Cynthia Trainor, the investigator; on my left, Neal Reynolds, the attorney/advisor; Gerry Benedict, the economist; Cynthia Foreso, the industry analyst; and Chand Mehta, the auditor.

I understand that parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphones. We also ask that you state your name and affiliation for the record before beginning your presentation.

Are there any questions?

(No response.)

MR. CARPENTER: If not, welcome, Mr. Lebow, please come forward for your opening statement.

MR. LEBOW: Good morning, Mr. Carpenter, and members of the Commission staff.

For the record, my name is Edward Lebow. I am with the law firm of Haynes and Boone, LLP, and am representing the petitioner in these investigations, Aqualon Company, a division of Hercules, Incorporated. I will introduce our other panelists when we come to the table in a few moments.

The point I wish to emphasize, what is really exceptional about this dumping case on purified carboxymethylcellulose is just how unexceptional it is. What this really is is a textbook case of the impact of dumping on domestic producers of a commodity chemical.

During the past several years there has been growth in the import sales in the U.S. market by the respondents. This has encouraged growth of capacity by some of the respondents. After that, their import shares continue to increase even more inexorably. And how do they sell? They use price. We think the record will show significant and continuous

underselling by the respondents of the domestic industry.

Several respondents, not only competing with the domestic industry, also compete with each other, further depressing prices in the market. And each of these respondent country producers has expanded from its original beachhead in the United States to country-wide, application-wide sales.

As the dumping margins will show, respondents are able to underprice in the U.S. market by covering their fixed costs with higher prices in their home markets, and then they can sell in the United States at closer to their variable costs. Respondents already have more than half of the U.S. market and the domestic industry is in a minority position.

The domestic industry's sales were continuing to fall throughout the beginning of this period of investigation, but this is a high fixed-cost industry. Falling and decreases lead to per unit cost increases and decreased profits.

Aqualon couldn't continue to allow its remaining volume to disappear, especially as the respondents were targeting the largest accounts, the base load type accounts. Aqualon did everything it

could to cut its costs to the bones, including deferring a good deal of maintenance, and of course, at reduced prices and towards the end of the period of investigation it took back some, but not all of the lost share.

The result of doing this at lower prices, however, was to see its gross margins reduced and its profits continuing to be extremely weak.

Meanwhile, according to published reports, respondents have huge amounts of unused capacity, aggregating, we think, perhaps even as much as double as Aqualon's total remaining U.S. sales.

So not only is the domestic CMC industry already suffering significant material injury due to the dumped imports, it's faced with real and imminent threat of increased material injury in the coming months and years, and this morning our witnesses will testify to that situation in greater detail.

Thank you.

MR. CARPENTER: Thank you, Mr. Lebow.

Mr. Clark and Mr. Neeley, come forward at this time.

MR. CLARK: Good morning. For the record, I am Matt Clark of Arent Fox. We are counsel to the Huber Noviant Group Companies in this proceeding. I

am accompanied today by my colleague Ms. Nancy Noonan.

Testifying today on behalf of the Huber Noviant Group Companies will be Dr. Steven Bodicoat, Vice President of Marketing. Accompanying Mr. Bodicoat is Mr. Ken McKenzie, the Director of Product Development at Noviant. In the interest of time, Mr. McKenzie will not be providing direct testimony, but will be available to respond to any questions the Commission staff may have.

Also testifying on behalf of the parties in opposition this morning is Mr. Bruce Malashevich, President of Economic Consulting Services.

The testimony that you hear today, along with the information that will be provided in the post-conference brief, and that we believe you will be collecting through questionnaires, will reveal a very different marketplace and a very different competitive reality than the one presented by Aqualon in its petition.

The testimony you will hear this morning and the record in this proceeding will establish that for Noviant CMC is a value-added specialty chemical with a wide range of critical end-use applications. Aqualon, on the other hand, as you've just heard from Mr. Lebow, treats CMC as a simple commodity, and it treats

its customers and its purchasers as the purchasers of a mere commodity.

Noviant's philosophy is completely different. For Noviant, success in the CMC market is a function of identifying and providing value in use to end users through technical support, product innovation and customized formulations, not by treating CMC as a commodity, selling only on the basis of price.

If Aqualon has been materially injured, and we maintain it has not been, it is because of Aqualon's pursuit of a commodity strategy rather than as a value-added supplier of a critical input component.

The testimony this morning will also highlight the presence and the critical impact in the marketplace of the many substitute products that compete with purified CMC, including non-subject imports of technical grade CMC and non-subject imports of purified CMC from other countries.

This latter point, imports of purified CMC from other countries, is a conspicuous and we think curious omission from Aqualon's version of the market and from the petition in this proceeding.

The totality of the testimony that you will

hear, along with the other record evidence that you will collect through questionnaires and the post-conference brief, will establish that the growth in subject imports as described in the petition is a fiction. The subject imports have not depressed or suppressed purified CMC prices in the U.S. This is also a fiction in the petition. It is also a fiction that there is excess capacity overhanging the market. The record and the testimony today will confirm all of these.

In short, the testimony and the record will confirm that there is not a reasonable indication that subject imports have caused or threaten to cause material injury to a U.S. industry.

Thank you.

MR. NEELEY: For the record, my name is Jeffrey Neeley of the law firm of Greenberg Traurig. I am here today on behalf of Quimica Amtex, which is the only producer of CMC products in Mexico.

Amtex is, quite frankly, puzzled why we are here at all. It is, we think, readily apparent from the petition that this petition was not directed at Amtex. The quality of the information in the petition with regard to Amtex is extraordinarily poor, which we think is just indicative of the fact that Amtex and

Mexico apparently were added at the very last minute to this petition, so it seems.

In any event, today what we will have is testimony by Mr. Corrado Piotti, who is the Commercial Director of Amtex. Mr. Piotti will testify as to several things that we think are relevant, and frankly, make our story a bit different than anybody else's here.

First of all, Amtex has very few customers in the United States. There are, frankly, only two customers that account for the vast bulk of our sales to the United States and have for many years. Both of those customers are in a situation where they don't have for one reason or another, which Mr. Piotti will explain, would never purchase from Aqualon, and that goes to two legal conclusions.

The first is that we should not be accumulated with the other parties to the other countries in this investigation; and secondly, that there is no injurious effect by reason of the imports from Mexico standing alone. So that will be the first thing that Mr. Piotti will speak to.

The second thing that we will speak to is the capacity information that is in the petition. The petition indicates that there is somehow a vast amount

of capacity underutilization in Mexico. Nothing could be further from the truth.

The fact is that Mexico has been, and Amtex has been at full capacity for years, that we have been in a position where Mexico has been forced to bring in product from its sister companies in South America; that there is -- it is true enough, some additional capacity being added, but that's just the modernization which will be a very modest increase in capacity, and will simply replace the product that is now coming from South America, and will have no net effect on the United States market.

In short, we think that what we see is a petition that was extraordinarily poorly drafted. And with regard to our client, we think that when the Commission receives all of the facts and looks at the entire situation, that they will agree that Mexico should be dismissed from this case.

Thank you.

MR. CARPENTER: Thank you, Mr. Clark and Mr. Neeley.

At this point we will ask the petitioning panel to come forward, please.

(Pause.)

MR. LEBOW: Good morning again.

Let me begin by introducing our panelists and other folks who are here today to support Aqualon. To my immediate left is D. Charles Herak, "Chuck" Herak, the worldwide business director of Aqualon CMC.

And to his left is Scott Riefler. Mr. Riefler is the president of TIC Gums, a purchaser of CMC from Aqualon and also a purchaser of other hydrocolloids, a president of a company which not only resells some of these products, but also creates blends of hydrocolloids which it sells into the food industry.

And to our far left is Mr. Niels Thestrup, another senior manager of the Aqualon CMC business. Mr. Thestrup will not be giving direct testimony, but he is available to help answer questions.

To my immediate right is Mary Hallock. Ms. Hallock is sales manager for food industry clients of Aqualon CMC and other Aqualon products.

And finally, Dan Klett of Capital Trade, who is the economist working with us.

Behind us in the room are Gale Sheppler who is an associate at Haynes and Boone who is helping us, and behind him is Jim Davis, the senior counsel of the Aqualon Division of Hercules.

Mr. Herak will provide the initial

testimony, and as formats, rather than have him read a statement to you, I am going to be asking him a series of questions, and then he will be relying and speaking to you directly.

Chuck, would you identify yourself for the record, please?

MR. HERAK: My name is Charles Herak, and I am the Global Business Director for the CMC Unit of Aqualon, and I am responsible for the profitability and strategic direction of the CMC business.

MR. CARPENTER: Let's begin by talking about the product. Would you please describe for the panel exactly what is purified carboxymethylcellulose?

MR. HERAK: Carboxymethylcellulose is a white to off-white powder, and I just brought along one sample that may be somewhat useful for the people on the Commission to see as an example.

CMC is highly soluble in water. It acts as a thickener and also as a water binder. This particular sample is a solution of CMC dissolved in water, and if you tilt it back and forth you will notice that it's quite a thick and viscous solution.

Typically, CMC is sold to customers in 50-pound bags which are stacked on pallets, so one-ton pallets, and sometimes it's sold in large bags like

super sacks that could be 500 or a thousand pounds.

MR. LEBOW: Thicker is easy enough to understanding, but what do you mean by water binder?

MR. HERAK: An example of water binding would be toothpaste. When you squeeze a tube of toothpaste you get a nice uniform tube of the kind of gel-like paste that comes out. And if the CMC was not present, in fact what would happen is you would get some separation. The water would separate from the other materials in the toothpaste, so in a sense it's kind of binding the water and holding it together with the rest of the formula.

MR. LEBOW: In addition to toothpaste, what else is CMC used for?

MR. HERAK: There are for major markets where CMC is sold and a number of smaller applications as well. The four major markets, the first one is the food industry, and there are a number of different uses in food. I have a few example here also.

One example here is this Duncan Hines Moist Deluxe Cake Mix, and here the CMC is used to bind the water and keep the cake more moist, and prevent it from drying out.

On the list of ingredients, you will see a number of ingredients, and you will see CMC listed

here as salos gum, that's one of the other names for CMC, and that's what is commonly referred to in the food industry.

It's also used in this product. These are cereal bars, and in the food filling the CMC is used to improve the texture and again bind the water.

Here is an example of a cocoa-mix where the CMC used to improve the mouth feel and the viscosity of the cocoa-cocoa, it's used in a lot of beverages. It's used in ice cream. Those are some of the examples in the food industry.

It's also used in personal care; as I mentioned, toothpaste. It's used as a binder and thickener in toothpaste as well as in dentures adhesives.

The third large segment would be for the paper industry. CMC is used in coated paper to help with the coating of that paper. This would be the type of paper that you would see in a magazine typically. In addition, CMC is used for adding wet strength to paper towels, so like Bounty Paper Towels, things like that. When they get wet and they are still strong, that's because CMC is in there with some other chemicals that maintain that wet strength.

The fourth large area of sales of CMC is to

the oil drilling market. CMC is used in drilling muds, and these drilling muds help with the lubrication of the drilling equipment as it bores down into the ground and it also helps to bring the cuttings of the earth back to the surface.

So those are the four primary applications for CMC, but in addition, there are a number of smaller applications, including ceramics, adhesives, cables, batteries, it's used in mining for recovery of some precious metals, so there are actually very many uses for CMC.

MR. LEBOW: Are these stable or growing markets or cyclical markets? What kind of markets are they?

MR. HERAK: Well, it depends on the particular industry segment. For the food and the oil care applications, these are growing slowly but steadily, maybe about two to three percent per year in the U.S.

The paper market has been relatively flat. The U.S. paper market today is still an exporter of paper and coated paper, but the amount of exports has decreased as there has been some new capacity for paper added, particularly in Asia, so that industry is not growing significantly at this time.

The other major segment, the oil drilling segment is very cyclical. The amount of drilling activity is related, of course, to the price for oil and natural gas, and with some leg there is usually an impact of the price of those fossil fuels on the amount of drilling activity, and hence the need for the drilling chemicals and drilling muds.

MR. LEBOW: How is CMC produced?

MR. HERAK: CMC, it starts with cellulose. There is two sources of cellulose; one is from wood, the other is from cotton. I have some small samples here. This happens to be of wood cellulose. We typically buy this in big rolls, several feet wide.

The cellulose is then ground up and it's fed into a reactor where it is reacted with a number of chemicals. The primary ones are sodium hydroxide and monocholoric acetic acids, which is usually called MCA. So under a carefully controlled set of reaction conditions we can produce CMCs of different, slightly different properties, different viscosities and degrees of substitutions.

But after the reaction step, you have a CMC which is not pure. It's containing a lot of byproducts, primarily salt. So you have essentially a product that is about 70 percent CMC, 30 percent salt.

There are a number of purification and washing steps which are necessary to arrive at a purified CMC, so alcohol is used in combination with water to wash away the salt. There are a number of solid/liquid separations using filter presses and centrifuges and things of this nature, and that's a very capital-intensive part of the operation.

Afterward there is some drying and grinding, and finally the packaging into the bags.

MR. LEBOW: Do you consider this a capital-intensive industry?

MR. HERAK: Yes. Overall, CMC production is very capital-intensive relative to the cost for the raw materials. A world skilled CMC plant, a new one would cost over $100 million.

MR. LEBOW: Where is CMC produced and by what producers?

MR. HERAK: There are a number of CMC producers. if we start with Aqualon, Aqualon today has three CMC factories. One is in Hopewell, Virginia, which is just south of Richmond. We started producing CMC there as a first producer int he United States in 1948. We have since that time made very significant investments in that facility to expand the capacity, to modernize the plant.

We also have two more plants. We have a plant in France, which we purchased in 1977, and we have a very small plant in China, in south China, which we purchased in December of last year.

In addition to Aqualon, there are a number of other producers. Far and away the world's largest producer of CMC is Noviant, which has three factories: one in Finland, one in The Netherlands, and one in Sweden.

The other significant producers of CMC in the world would be Akzo with their facility for purified CMC in The Netherlands; Quimica Amtex, which has production in Mexico, Colombia and Argentina; Wolf, which is a division of the Beyer Chemical Corporation, with production in Germany. There are two quality Japanese producers, one is called Dycell, the other is called DKS. There are also a number of smaller producers scattered around the world but they are really not competitive on a world scale. They have lower quality and relatively limited production capacity.

MR. LEBOW: Are there quality or other differences among the CMCs produced by these suppliers?

MR. HERAK: The major producers which I

mentioned all produce high-quality products and have very broad ranges of products that can be used in all the major applications.

But if we talk about some of the smaller producers, the ones that I didn't name, such as the producers in China and some of the other small producers in developing countries, typically their quality is at a lower level and it's not suitable for direct substitutions for the CMC of the major producers.

MR. LEBOW: Are there any differences in the CMC used for different applications?

MR. HERAK: Well, each of the major producers has a broad range of products of different viscosities and degrees of substitution. They are all essentially the same basic chemical, but there is just slight differences in the chain length and degree of substitution so that the product can be optimized for the particular applications.

So the customers, whether it's a food customer or paper customer, they would select a grade which really gives the best cost and performance for their particular application.

But these products are all considered CMC. They are all produced in the same type of production

equipment, and they use all the same chemicals and so forth.

MR. LEBOW: The petition draws the line between crude and purified CMC at the 90 percent or greater purity level being purified.

Why did you select this level as a place to draw the line?

MR. HERAK: Well, there is another product which is sold in the market known as crude CMC. Some of the producers call it technical CMC, and that would be a product that is roughly 65 or 70 percent purity.

And if we step back to the discussion on the production for the purified CMC, essentially the first part of the plant is the same, the reaction, but then there is no purification.

So it's a very -- it's a much lower cost product, and that is sold in the marketplace, so that is one distinction.

But then if you begin to purify the CMC, you can purify it to different levels, but typically if you would go through one purification operation you would arrive at a purity of about 90 percent, and you can do subsequent purification to improve the purity further. But given that a single purification step would arrive at 90 percent, we thought that was a

reasonable place to draw the line.

In addition, there really is very limited or no material sold say in the 80 to 90 percent range of commercial significance. So by drawing a line at 90 percent, it's unlikely that unpurified material would get accidentally included.

MR. LEBOW: Stepping back for a moment and looking at the U.S. CMC market, could you describe what the basic conditions of competitions are in that market?

MR. HERAK: Well, there are a number of different competitors selling CMC in the U.S. market, all the producers here as the respondents, in addition to a few others. So the products, although there are different viscosity grades and so forth, they are largely fungible and the customers, they make every effort possible to qualify multiple suppliers so they can try to buy the product from any one of these producers, and use their leverage to try to drive the price down, and make the purchasing decisions primarily about price.

MR. LEBOW: Excuse me, let me interrupt at that point.

We heard in the opening statement from respondents that Aqualon is attempting to sell this

product on a commodity price basis whereas they are trying to sell on a value basis.

Does that reflect the market as you see it?

MR. HERAK: In fact, I would tend to look at it a little bit the opposite. Aqualon, as the -- as the U.S. producer for a long time, had built up relations with our customers, a lot of customized products for the different applications. We, in fact, developed many of the new types of CMC over the years which gave enhanced performance in different applications.

And as we saw more aggressive activity from some of the respondents, we tried to convince our customers that this product that we sell is a specialty, and that we do have some unique performance and benefits relative to some of the other CMC. And the respondents just tried to cut the price by 20 - 30 percent, and it was not about offering a better product; it was about offering a lower priced product.

MR. LEBOW: Thank you. I'm sorry. I interrupted you. You were talking about the conditions of competition.

MR. HERAK: So price has been one of the major decision in the purchasing philosophy in the recent past, and the respondents have taken advantage

of that.

I should also point out that the importers already have the majority share of the U.S. CMC market today.

MR. LEBOW: And what is your sense of worldwide capacity? Again, we heard this morning that it was suggested that there is not excess capacity in the world.

MR. HERAK: Well, according to our analysis as well as a number of different industry reports, there is a lot of excess capacity for CMC in the world, estimated at roughly 20 percent of the total capacity.

MR. LEBOW: What is the history of the U.S. CMC market?

MR. HERAK: Well, Hercules became the first producer of CMC in 1945. We then started making investments in our Hopewell facility in 1947, and have continued to produce CMC there ever since that time.

In the early days of CMC, there were a few other U.S. producers that entered the market, including duPont and a few others, but none of them really stayed in the business for a long term. And to my knowledge, I believe for about the last 30 years Hercules has been the only U.S. producer of purified

CMC.

Given the fact that we were the only U.S. producer, we did have a very strong market position, and up through the eighties there were imports coming in, but they had a relatively modest share of the U.S. market. Entering the nineties with more international trade and more globalization, as with many products, there became more imports into the U.S. of CMC, and the importers solely improved their market position in the U.S. market, and I view that really as kind of a natural evolution of many products. With increasing global trade, that's just a natural trend.

But there was a very significant event in 1999, Noviant completed some major expansions of two of their facilities, adding more than 40 million pounds of capacity, which is, in essence, the same amount of capacity, the total capacity of our Hopewell, Virginia plant.

And at that time they became extremely aggressive in the marketplace, and the prices that they were offering to the customers were dramatically below the preexisting levels at that time as they attempted to try to fill up this new capacity.

To a lesser extent, Quimica Amtex steadily increased their participation in the U.S. market using

price as their major tool to gain new business. The impact of this activity put a lot of pressure on Aqualon's both -- on their market share and on our price.

MR. LEBOW: Does Aqualon meet more than one competitor at any given account?

MR. HERAK: Yes. Typically, we would meet several competitors at the same account. And in fact, I think it's the goal of most purchasing agents, I think they go to some purchasing agent training or something where they try to qualify as many suppliers as possible in an effort to commoditize the product and drive the price down.

And also, Mr. Riefler, to my left, will be able to address that issue more in his testimony.

MR. LEBOW: And does Aqualon meet all the subject country producers throughout the entire United States?

MR. HERAK: Yes, we see the subject countries active in all the areas of the U.S. And in fact in the case of Quimica Amtex, we see increased level of activity. They have recently announced a new sales office opening in Chicago.

MR. LEBOW: And how about the application, does Aqualon meet all of the subject country producers

in all of the major applications for CMC?

MR. HERAK: Yes, I believe that they are active in all the major applications with one exception. I'm not aware that Akzo is selling into the U.S. paper industry.

MR. LEBOW: What has been just the general behavior of the competitors?

MR. HERAK: Well, I think, as I have already mentioned, very aggressive in terms of trying to what we consider buy market share, essentially offering extremely low prices to buy market share, enter into long-term contracts, and lock in the key customers.

MR. LEBOW: How has Aqualon chose to respond to these tactics?

MR. HERAK: Well, initially, because of our philosophy that CMC -- our philosophy, our past philosophy that CMC was more of a specialty in that we could differentiate ourselves with our service and with the product quality and so forth, we attempted to hold our prices as we saw some of these very low price offers from some of the competition.

In fact, we were, I don't know, a combination of maybe too naive, we were a little bit shocked when we saw some of the very low price levels that were offered by the competition, even believing

maybe that the purchasing people were misleading us, they were trying to exaggerate the price levels that were being offered.

So we generally tried to hold our prices or make some minor concessions. The result was that we lost a huge amount of market share in the process.

So after reality sunk in that the prices really had dropped by this substantial margin, we then began to lower our prices in an attempt to regain some of that share, and we have had some minor success I would say in the last six to 12 months, but still we have a much lower market share than before this activity began, and the prices obviously are much lower.

In addition, throughout this period recognizing some of these trends and recognizing the very aggressive behavior of the respondents, we made every effort to aggressively cut our costs to maintain some level of profitability in the business.

MR. LEBOW: So to recapitulate then, what has been the impact of respondents' behavior been on Aqualon?

MR. HERAK: Well, to summarize, I mean, our volume has dropped dramatically. The price has dropped very dramatically. When you multiply these

two factors together, it creates an even more significant drop in revenue and drop in profit.

That has required us to reduce our employment base at our production facility in Hopewell, as well as some of the support functions. We have not made any capital expenditures in our facility in Hopewell, and we've kept the maintenance to the bare minimum as to what is necessary to keep the plant running. We have idled part of the capacity in an effort to save money and put additional capital into the plant at this time.

But this is not a situation that can continue indefinitely because it's like a car, if you don't do some amount of maintenance and replacement of certain things, it can't run forever.

And I should also point out that the business performance, which is detailed in our petition and questionnaire, if in fact it wasn't for these measures, the business performance would be even worse, and delaying some of these capital expenditures and maintenance, which are eventually necessary, it makes the shorter term results of the last few years look a little bit artificially better than what they would be over a long term.

MR. LEBOW: In terms of all the Aqualon

businesses, how does CMC compare?

MR. HERAK: Well, Aqualon, in fact, is the world's leader in making products similar to CMC but of different chemistries. We start with that same cellulose that I passed around, and we do a lot of different types of chemistry to it. We have a lot of other products that sound similar, like hydroxyethylcellulose, and methylcellulose, and hydroxypropocellulose, and so on and so on, and all of those product lines and business units are performing very well. They are very profitable. They are growing, and we reinvesting in those businesses.

So much a different story with CMC, we are unable to attract the capital necessary to grow and sustain the business compared with the others.

MR. LEBOW: So how do you see the future for domestic CMC?

MR. HERAK: Well, not surprisingly giving this situation, we see a very difficult future and not a really rosy future.

The concern is not only has there been a very significant penetration of the imports using these very low prices, but that there seems to be no change in the trend. I mean, there has been a very steep price trends coming down and down, and there

doesn't seem to be any end to this endless price cutting by the respondents.

In addition, given the large amount of excess capacity at Noviant's facilities, they pose a significant threat to try to continue this practice and fill up their unused capacity.

A lot of activity in the recent years where the respondents have deemed business has been at some of the larger accounts. I think if you are coming in you want to gain volume, you first go for the largest accounts, so they have had a lot of success there and taken a lot of share.

If we look at the medium and smaller accounts, there has been less activity to date, but there is increasing activity, and so that's even a bigger threat going forward, that they start penetrating at those second tier customers and further increase their market share and drive prices down.

So overall, I mean, the business performance as it is today and as it's projected is not very optimistic, and I'm not very confident that we will be able to reinvest in the Hopewell facility to maintain the capability for the long term is the business climate doesn't change.

MR. LEBOW: Is there anything else you want

to add in conclusion?

MR. HERAK: Well, I would just like to summarize. I think that the data and the testimony will clearly show that the subject imports have caused substantial injury to our domestic industry, and do threaten the long-term viability of CMC production in the United States.

MR. LEBOW: Thank you, Chuck.

MR. HERAK: Thank you.

MR. LEBOW: We are going to turn now to a briefer testimony from Mary Hallock speaking from the point of view of someone who is in the trenches of sales.

Mary, would you identify yourself for the record, please?

MS. HALLOCK: My name is Mary Hallock, and I'm the sales manager for the food industry for Aqualon.

MR. LEBOW: And what are your responsibilities?

MS. HALLOCK: My responsibilities are to manage the sales at food customers in the Midwest and in the Southeast.

MR. LEBOW: Is it the only position you have ever had at Aqualon or Hercules?

MS. HALLOCK: I have held numerous positions with Hercules, including manufacturing, marketing, sales, and at one point was the business director for CMC.

MR. LEBOW: With that experience in CMC, would you like to add just a few words of your own about the overview of the condition of the business as described by Mr. Herak?

MS. HALLOCK: I would just like to echo what Chuck has stated. I was the director of CMC in the 2000-2001 time period, and agree that at that time were caught by surprise by the low prices that we heard. We did not believe them and did not react very quickly because we didn't believe that.

We were forced to take some pretty dramatic action with regards to employment at the facilities and have reacted since then by lowering our prices very dramatically in order to maintain share in the market.

MR. LEBOW: Can you describe the territory you cover and the types of customers you visit?

MS. HALLOCK: My territory is the Midwest United States and the Southeast. I primarily handle the very large accounts, only again in the food industry, no other industry. However, I do as needed

deal with the small and medium-sized customers as well.

MR. LEBOW: Could you share with the staff a couple of examples just of what's happened in the last few years with major customers?

MS. HALLOCK: I have got one account in the South where I compete against Amtex. In 2001, we had all of their business. In 2002, we lost two-thirds of their business. In 2003, we reacted by decreasing our price by four percent, still maintained about two-thirds of the business. So in 2004, we decreased our price by nine percent, and although we did get some business back, we have not gotten 100 percent of the business back.

Another account in the Northeast, we run into Noviant. There was a price decrease there between 2000 and 2001 of 19 percent. Between 2002 and 2003, there was an additional four percent decline in pricing, at that point we only had 20 percent of their volume. Between 2003 and 2004, we again lower price by nine percent to try and regain some of our volume; ended up with about 27 percent of the volume at this point, and we are told that even additional four percent decrease wouldn't even get us back half of the business that we had.

MR. LEBOW: Let me ask you one additional question. We heard this morning that it's Aqualon which is commitizing this business, we described it that way because we have done it.

Is that your experience in the market?

MS. HALLOCK: My experience is that we have been trying to actually claw our way back in through pricing. The purchasers are very aggressive. They are qualifying second sources when they get lower prices, and we have been forced to react to those low prices.

MR. LEBOW: Thank you.

I think we would like to turn now to a purchaser and hear from the other side of the marketplace. Our next witness will be Scott Riefler.

Scott, would you pull up to the microphone so they can hear you?

Would you please state your name for the record?

MR. RIEFLER: I'm Scott Riefler. I'm President of TIC Gums.

MR. LEBOW: And how long have you been with TIC Gums?

MR. RIEFLER: Four years.

MR. LEBOW: What does TIC Gums produce?

MR. RIEFLER: We produce and sell hydrocolloids to the food industry, discrete materials and blends.

MR. LEBOW: What are hydrocolloids?

MR. RIEFLER: Hydrocolloids are a group of materials that -- I'll give you a little bit of a technical description, I suppose -- by virtue of their surface area to volume relation provide very unique behavior in aqueous solutions.

Typically, they are modifiers, managers of water, viscosifiers, texture management and things like that.

MR. LEBOW: For which of its products does TIC purchase CMC?

MR. RIEFLER: We purchased CMC for our CMC product line, as well as for a variety of blends that we sell.

MR. LEBOW: Are there any reasonable alternatives to CMC in the products for which you buy it?

MR. RIEFLER: The word that you focus on is reasonable. In the hydrocolloid world there are a variety of hydrocolloids that can be used, and it's typically price and utility of use that determines which one you select.

So generally speaking, no, CMC is not by far -- is by far not the cheapest hydrocolloid available, so people are driven to its use. And for that reason there are alternatives, but not cost-effective alternatives or not technically effective alternatives.

MR. LEBOW: Could you just take a moment and describe, for example, how some of they hydrocolloids have different properties from CMC?

MR. RIEFLER: Again, it's important to understand, I guess, the price/functionality relationship. A work horse hydrocolloid in food industry is guar gum, and that is primarily because guar gum is very inexpensive, so it's used wherever possible. As you go up in a sense the value change, you run into other hydrocolloids with different functionalities.

CMC is typically selected for its smooth texture or clear color that it can provide to application use.

Other hydrocolloids that might compete with it in terms of functionality are either more expensive or not effective at these specific functionality that you would be targeting a CMC for. For example, Zanfan is also a very effective thickener, but it has a

somewhat different texture, meaning it's somewhat gloppy rather than smooth. CMC also is not -- does typically not provide a very clear solution, and in applications where clarity is important it would not be a suitable alternative for CMC.

MR. LEBOW: You say CMC doesn't provide a clear solution?

MR. RIEFLER: No, Zanfan does it --

MR. LEBOW: Zanfan.

MR. RIEFLER: -- provide a very clear solution typically.

MR. LEBOW: Now, given the different properties that some of these different products, do you often use more than one in the same blend?

MR. RIEFLER: It's our experience that our customers often will use a series or a group of hydrocolloids to provide the specific texture/thickening relationship that they are looking for.

MR. LEBOW: And in that case one is not a direct substitute for the other; is that correct?

MR. RIEFLER: Typically not.

MR. LEBOW: Does TIC purchase both imported and domestic CMC?

MR. RIEFLER: Yes, we do.

MR. LEBOW: Have you purchased from Aqualon?
MR. RIEFLER: Yes, we have.
MR. LEBOW: From Amtex?
MR. RIEFLER: I believe we have, yes.
MR. LEBOW: Or have you received offered -- solicitations from Amtex?
MR. RIEFLER: Yeah, they are suppliers to the industry, yes.
MR. LEBOW: From Akzo?
MR. RIEFLER: Yes.
MR. LEBOW: And from Noviant?
MR. RIEFLER: Yes.
MR. LEBOW: Where is your company located?
MR. RIEFLER: We are in Bell Camp, Maryland.
MR. LEBOW: Have you purchased from anybody else, Chinese or some of the other smaller suppliers?
MR. RIEFLER: Yes, we have.
MR. LEBOW: And why would you do that?
MR. RIEFLER: It's always a good business practice to be aware of the variety of suppliers available, and always seeking to get the best price for quality relationship that you can.
MR. LEBOW: Do you feel that the quality of all these companies is equal?
MR. RIEFLER: Relatively speaking, yes. I

would qualify that by saying our experience with Chinese suppliers has not demonstrated similar quality to the other companies you have mentioned.

MR. LEBOW: And what are your purchasing decisions based on?

MR. RIEFLER: Well, again, a very straightforward approach. Quality, services provided, and price.

MR. LEBOW: And if quality and service are present, what is the determinative factor?

MR. RIEFLER: Obviously price would be.

MR. LEBOW: And do you receive quality and services from respondents and from Aqualon?

MR. RIEFLER: Yes, we do.

MR. LEBOW: So is it fair to say that price is the determining factor when you make a purchasing decision among these sources?

MR. RIEFLER: Yeah, all other factors being equal, it certainly is.

MR. LEBOW: What are TIC Gums' qualification requirement for its potential suppliers?

MR. RIEFLER: I guess I would describe that as two tiers. We have -- we will measure the quality of the company, if you will, its stature, its longevity, capability to produce high-quality

materials, support, logistics, and then we will have specific product line or customer-based specification requirements.

MR. LEBOW: And are all the respondents qualified at TIC Gums?

MR. RIEFLER: Yes, they are.

MR. LEBOW: Has TIC Gums ever had any difficulty obtaining CMC from Aqualon, either a supply limitation, or has it ever experienced poor customer service or any other reason to be dissatisfied?

MR. RIEFLER: No.

MR. LEBOW: Are the domestic and imported products from the respondents equivalent on a non-price basis?

MR. RIEFLER: Yeah. Each company will have some specialty grades, the vast majority of the product lines offered, yes, they overlap considerably.

MR. LEBOW: And how do the importers attempt to sell the product to you?

MR. RIEFLER: Positioning their company as a quality supplier, a good support, and price.

MR. LEBOW: And again, what has been the single strongest factor they have used in order to try to make a sale?

MR. RIEFLER: Typically, it boils down to

price.

MR. LEBOW: What's happened to CMC pricing during the past three years?

MR. RIEFLER: It's been or experience within the food industry we have seen prices decline approximately 20 percent.

MR. LEBOW: Do you have any opinion what has caused this decline?

MR. RIEFLER: I suspect seeking of market shares, seeking the business.

MR. LEBOW: Are there any significant differences in the prices among the various grades of CMC that TIC Gums purchases for its different blends?

MR. RIEFLER: Typically not. Again, there are a few specialty ends that typically will command higher prices, but generally speaking the product for us which speaks to viscosity, response in water are all similarly priced.

MR. LEBOW: And are there differences in the capabilities of different companies among the respondents, or Aqualon to produce different grades?

MR. RIEFLER: I'm sorry, say that again.

MR. LEBOW: Does any of the respondents or Aqualon produce one or other grade better than the others?

MR. RIEFLER: Overall quality is -- in our opinion, is relatively similar. Again, each company has specialty or niche products that they produce that others may not.

MR. LEBOW: Does TIC Gums ever have any use for crude CMC?

MR. RIEFLER: No.

MR. LEBOW: Let me ask you this. Aren't you afraid that a successful antidumping petition will mean higher CMC prices to you and to your company?

MR. RIEFLER: No, we're not. And again, understand who we are. We are a company that provides a wide breadth of hydrocolloids to the industry. So again, dropping back to people typically purchase hydrocolloids on a price and utility of use basis. The specific price point of CMC is not particularly important to a company like TIC.

MR. LEBOW: Why is a viable domestic industry important to TIC?

MR. RIEFLER: Well, a big part of that answer would be logistics, access to technical support, materials, and in some case -- well, in all cases in the food industry a country of origin is something that appears on our bags, appears on our labeling, and in some cases people are interested in

the upstream security of supply, and again, logistics. So a domestic supply sources in some cases is of interest to customers.

MR. LEBOW: Thank you, Mr. Riefler.

Mr. Carpenter, that concludes our direct presentation, and we are very happy to take all your questions.

MR. CARPENTER: Thank you very much, ladies and gentlemen. We will begin the questioning with Ms. Trainor from the Office of Investigations.

MS. TRAINOR: My name is Cynthia Trainor. I am with the Office of Investigations, and I have a couple of production-related questions, so I guess they are for Mr. Herak.

You talked about producing CMC in the crude form and in the various levels of purification. Is the crude product isolated at any time in this or is it a continuous process, and at what point are the products funnelled off?

Does your company isolate the first purification at 90 percent, or wait until the final level of purification?

MR. HERAK: Our manufacturing facility is, I would say, a semi-continuous operations. There are a number of different operations all linked together by

pipes and conveyors and so forth, and we do not isolate material until it has reached a purity of at least 98 percent. Our products that we sell are all of 98 percent purity or higher.

Does that answer your question?

MS. TRAINOR: Yes.

I believe you spoke that the product is optimized for particular applications. To me that means that there has to be a concerted back and forth effort with your customers. And given the range of applications and products offered, I wonder if you could speak a little bit about that optimization, and I'm making a stretch and calling it technical support to sort of ride on what Mr. Riefler just finished saying.

MR. HERAK: Okay. I probably could have phrased that a little bit better than what I did.

We produce a very broad range of products, and those broad range of products will have different utility and different applications. So for the most part, we produce a breadth of products which have evolved over time as different applications and needs have evolved over time.

But in most cases we produce a broad range, and then the customer, sometimes together with

technical service people from Aqualon, will try to select the best grade from those available for their particular applications.

There are time when we work with a customer toward a new specialized grade, but I would say the majority of the time we are working from within our existing product line to help them choose the right grade for a particular application.

MS. TRAINOR: All right, then, to use an example as the paper industry for the various glossy papers or coated papers, there would be just a specific range of like three -- I'm just pulling a number out of the air -- products that would apply to that that customers would choose from, and that that would fit their processes?

And I guess I would go back to the oil well drilling too where you're saying purified is used for that and I certainly understand the corrosive nature of soils rather than lubricating nature of soils. But somehow I can't convince myself of the need for a purified product to drill into the ground. If you could address those kinds of things.

MR. HERAK: Okay, let me first try to start with the paper industry.

Essentially what you said is correct, that

there are, I would say, a handful of grades that would be more typically used in the paper industry. So even though we may have 50 different product specifications, they would probably use primarily amongst five of those or maybe 10 of those, but there tend to be certain grades that are work horse products for certain industries.

Does that address the paper?

MS. TRAINOR: That will address the paper.

MR. HERAK: Okay. All right, coming to the oil drilling, I have to first say I'm not the world's expert on the technology of drilling and drilling mud. But there are several important characteristics of the drilling mud. One of the important characteristics is that it prevents what they call fluid loss.

Fluid loss is essentially the water in the mud instead of staying in the hole it start seeping into the surrounding earth, so it's very important to prevent that because if you do not prevent that, then everything will get very thick and the drill will basically lock up.

So the purified CMC is very good at preventing this fluid loss as well as other properties.

I can speak to some of our technical experts

and maybe try to get you a more complete answer is that's not satisfactory.

MS. TRAINOR: And very briefly, I don't think it's a major application, but if you could just briefly speak to some of the textile uses.

MR. HERAK: There are very limited uses, almost no uses I believe of purified CMC in the U.S. textile market today. A long time ago, and I'm not a good historian on all of this, but a long time Hercules did make a specific CMC called "whip size" which was used for the textile industry, and that product though was an unpurified CMC if my memory serves correctly.

Typically in that application it's more of the crude, unpurified materials that are used. But we don't sell to that industry today, so I'm not an expert.

MS. TRAINOR: All right. Thank you very much.

MR. CARPENTER: Mr. Reynolds from the General Counsel's Office.

MR. REYNOLDS: Thanks very much for your presentation today. It's always interesting to come and hear the industry talk about what they do, and your testimony was very helpful.

I just want to follow up on some of the issues that Ms. Trainor was address. What we do, one of the issues that we address at the Commission is we try to make sure we have the right products when we are looking at competition, and there are just a couple of issues I would like to address on that.

The first one is the distinction between crude forms of CMC and the purified form, and I just want to sort of explore a little bit how distinct they are.

I guess my first question is a follow up on some that Mr. Herak said earlier which is, in your production processes you don't actually -- it seemed to me you said you don't actually stop at the crude form. You continue through to the 98 percent form for all of your product. So I guess the question is, and you can sort of elaborate on this, are there people who do stop at the crude form in their production process, and do they sell that crude form in the marketplace?

I note that in your petition you said crude is sold for use in detergents.

MR. HERAK: There are a number of crude CMC producers that produce that product specifically for the marketplace. I believe that all of the

respondents are active in that marketplace, as well as other companies, so there are specific applications where crude CMC is the most cost-effective product for the specific application; detergents being one of the large areas.

MR. REYNOLDS: Do you have a sense of how big the crude market is say comparative -- compared to the purified market? Is it say a third of the size or a quarter of the size?

MR. HERAK: I really do not have a good feel for that. I have seen some things in published reports. I think it's -- if I can remember -- maybe something in the order of two-thirds the size on a global basis of purified. The respondents may be able to answer that question better than I.

MR. REYNOLDS: Right. If you could find data, it would be helpful to put that into your post-hearing brief.

Could you stop your production process? Is there a stage that which it would be easy to stop your production process and produce crude if you chose to sell in the market?

MR. HERAK: Not the way our plant is configured today. It would -- it's not possible. You would have to completely change around the production

unit.

MR. REYNOLDS: Do the respondents' facilities have -- I mean, to the extent that you know this, it may be proprietary, do they have a different setup in their production facilities that allows them to do that?

MR. HERAK: I'm not certain, but I believe they probably have different production lines, some dedicated for the purified and some dedicated for the crude. I think that would probably be the most effective way to do it, although it's theoretically possible you could have a line set so that it could stop and go towards drying or it could go on to purification.

MR. REYNOLDS: And following up on that comment, do you have just one line that's dedicated to all of your production of all the grades that you produce, or do you have one or two or three or five different lines that each are dedicated to particular purities or particular types of CMC?

MR. HERAK: That's proprietary information, so I would prefer that we answer that in a post-hearing brief.

MR. REYNOLDS: Okay, that's fine.

I guess what I'm looking for is to follow on

that question, if you could give me information just, you know, how many lines you have, what the types of lines produce, are they segmented by end use category, i.e., food versus pharmaceutical versus oil, are they segmented by purity, are they segmented by both, et cetera, et cetera, et cetera. It's part of the process we go through in terms of trying to make sure we have the right information.

I take it then that you probably wouldn't be able to tell me how much -- the relative value of price of crude CMC compared to purified CMC, or could you?

MR. HERAK: I can give you a ballpark estimate.

MR. REYNOLDS: Sure.

MR. HERAK: I mean, if you look at like the Chemical Marketing Reporter, which is one of the trade journals, when it lists prices which I would say typically may be higher than actual market prices, but it has crude or technical grade CMC listed, I believe, at 78 or 80 cents a pound, whereas it has purified CMC listed at more than $2.00 a pound, I believe.

MR. REYNOLDS: That's a -- I mean, you have a big value added there then.

MR. LEBOW: My recollection is -- I mean, we

have it in the petition one example, I think it's Exhibit 2; is that correct? There is a piece in the Chemical Marketing Reporter which gives a typical week's quotes for those prices.

MR. REYNOLDS: Yes, thank you, Mr. Lebow.

And what I will do, if you have any information that you could show in addition to this relative pricing, this may be tough for you, but relative cost, because there is a difference between relative cost and relative price.

MR. HERAK: Well, just a general indication there, as a starting point just from a raw material standpoint, if you make a product which is 70 percent CMC and 30 percent byproduct, and even if there was no cost to remove the byproduct, just the simple fact that you take away 30 percent of the material you have increased your cost substantially.

MR. REYNOLDS: Right.

MR. HERAK: But in addition, the cost of removing that 30 percent of salt and byproduct is extremely capital-intensive. I would say on the order of 50 percent of the total capital of a purified CMC facility.

MR. REYNOLDS: And I guess since you're the producer of CMC in the United States, then there is no

one who is a domestic producer who produces crude in the United States.

MR. HERAK: There is, in fact, a producer, a domestic producer of crude CMC. It is Penn Carbos.

MR. REYNOLDS: Penn Carbos.

MR. HERAK: They are located in Summerset, Pennsylvania.

MR. REYNOLDS: Yes, I probably should have remembered that from the petition, because I know it's in there. How big are they compared to you?

MR. HERAK: I think their stated capacity is significantly smaller than ours. We may have it somewhere in our petition.

MR. REYNOLDS: Okay. Well, if you don't, if you just either point me to --

MR. HERAK: Right.

MR. REYNOLDS: -- where in the petition, Mr. Lebow, where it is.

MR. KLETT: Mr. Reynolds, Exhibit 1-H, there is a report that has information on Penn Carbos.

MR. REYNOLDS: Okay, great. Well, I appreciate that.

Let me get back just to now purified itself. How many different grades of purified CMC does your company produce?

MR. HERAK: I don't know the exact number, and it depends a little bit how you define grades. We have certain kind of families of products. I don't know if you have had the luxury to look at our product nomenclature, but there is nomenclature like 7HF, where seven would be the degree of substitution, and H would stand for high viscosity, and F would stand for the food industry.

So there are I would say probably 15 or 20 kind of general grades, and then sometimes there may even be small subgrades like a certain customer may need a specialized tighter range of viscosity and they are willing to pay a premium for that, for example.

MR. REYNOLDS: So you're looking at -- I mean, in terms of particular grades, 20 basic grades, and then you do customer-based formulations, and that might expand it to how many different grades? Fifty?

MR. HERAK: Probably in terms of our specifications book that we have with all the separate things, it's probably more than 50.

MR. REYNOLDS: Fifty, okay. But your basic grades are 20 grades or so?

MR. HERAK: Yeah, I'd say 15 to 20.

MR. REYNOLDS: Fifteen to 20.

Now, one of the things we look at in terms

of assessing what the appropriate product is to examine is customer perceptions in the market, and one of the facts I notice in your petition is that there is actually a different name for food-based CMC, food-use CMC grades. I think it's cellulose gum, and there is also a different name for oil field CMC, which is poly?

MR. HERAK: Polyanianiccellulose pack.

MR. REYNOLDS: Thanks. Do the different names indicate differing perceptions of the products produced, that these are sort of different categories of CMC, or in your view and Mr. Riefler's view, maybe Mr. Riefler could address this as well, does the market perceive this to be one category CMC?

MR. HERAK: I would say largely that the market does view it as one category. Although if you are a customer in the food industry, you are probably more concerned about cellulose gum and you may not pay much attention to what's happening in the paper industry and the oil industry.

But actually the really good purchasing people, they are aware of the different applications for CMC because they know that the supply/demand balance in other segments can have an impact on their pricing or supply and so forth.

As far as the names, cellulose gum, I don't remember, I think it's decades ago, when that name came to common use. It's a much more label friendly name if you are a food company compared to carboxymethylcellulose. So from kind of a marketing standpoint, because the material is very safe, it's harmless, non-toxic, in fact, it's a dietary fiber which is good for you, so I think it was more for those kind of marketing reasons and customer perception reasons that that name evolved.

And similarly, if you take the example of the pack for the oil field also, it was the same product. It used to be called CMC, but Hercules in fact was the first one to come with the name "pack" more as kind of a marketing concept I would say.

MR. REYNOLDS: Okay. Following up on that, how interchangeable between the various grades and end uses is CMC, and you could actually use -- I assume you probably couldn't use oil field CMC for food and pharmaceutical use, but could you use CMC that's used in food and pharmaceutical for the sort of lower quality?

MR. HERAK: Generally the answer is yes, you could exchange one for the other, with the one exception that oil field specification requirement of

our products is a more than 98 percent purity, but the FDA requires more than 99.5 percent for any use in food for toothpaste.

So although you would probably get good functionality in terms of thickening and texture taking the oil field grade and using it in a food application, you wouldn't be allowed to do that unless you had it purified to at least 99.5.

And conversely, if you took some of the food types and you put them in the drilling mud, they would also function, although they may not be the optimal grade for the drilling application.

MR. REYNOLDS: And I think I heard someone say, it might have been Mr. Herak, it might have been Mr. Riefler, maybe Ms. Hallock, that there is a very limited range even amongst your grades of CMC you have of price. There is actually a fairly common pricing level whether it's oil field or food CMC use, whether it's 98 or 99 percent. Is that true?

MR. HERAK: I don't remember saying anything about --

MR. REYNOLDS: Well, maybe I missed something.

MR. HERAK: -- the different industries. I think it was Mr. Riefler talking about the various

grades, the various different food uses.

MR. REYNOLDS: Oh, within food uses.

MR. HERAK: Within the food group I think is what he was mentioning.

MR. REYNOLDS: So within food use you see, even within a variety of grades you will see a fairly small range of pricing?

MR. RIEFLER: Yeah, that's correct. Within the food category, the discrimination between different grades is typically the degree of viscosity response to water, and its degree of substitution. And generally speaking, within that band there is a fairly common price platform, if you will. There are exceptions, there are specialty grades, but generally speaking that's correct.

MR. REYNOLDS: Okay. And this goes, I think, to everybody probably but Mr. Herak. It sounds like you sell mostly food?

MR. RIEFLER: Yeah, we are primarily -- we are primarily the food industry.

MR. REYNOLDS: Does the price of the CMC increase generally as you go up the purity scale?

MR. HERAK: If you are talking from crude to purified, the answer is certainly yes.

MR. REYNOLDS: I'm really talking about

purified CMC.

MR. HERAK: Within purified CMC --

MR. REYNOLDS: If you go from 98 to 99, 99.5, does it get more expensive?

MR. HERAK: Is the price higher or is it more expensive to make?

MR. REYNOLDS: No, I'm sorry. Is the price higher, the actual price to the purchaser?

MR. HERAK: I would say that the price, it doesn't depend so specifically on that distinction between 98 and 99.5. I would say in general the purified type tend to have a higher price, but it's more because of the end-use applications and the value and use relative to other substitute material.

MR. REYNOLDS: Okay. Again, going to the same issue but looking at other products, Mr. Riefler testified the point that hydrocolloids, other hydrocolloids aren't necessarily reasonable substitutable, I guess, for CMC.

One question I had for you is in your petition you say, "CMC is distinct from those other hydrocolloids because it is unique and its pseudoplastic rheology behavior."

What does "pseudoplastic rheology behavior" mean?

MR. HERAK: Do you want to take that one?

MR. RIEFLER: I can answer that.

MR. HERAK: He can probably answer better than I can.

MR. RIEFLER: This will be a technical answer. I apologize for that.

MR. REYNOLDS: Remember, I'm a dummy so you've got to speak down to me.

MR. RIEFLER: Fluids have a property that's known as rheology, and my understanding of the strict definition of rheology is a fluid's resistance to flow under the force of gravity, and there are methodologies for testing its rheology. The end result is typically expressed as a viscosity.

There are some actually very labor-intensive techniques to determine viscosity, and some very expensive techniques to determine viscosity and rheology.

Industry has settled on a common test, which is know as a Brookville viscosity, or typically using a Brookville viscometer, relatively inexpensive, relatively easy to reproduce from laboratory to laboratory.

But when you start testing viscosity that way you take a jar of fluid and you put a spindle in

it of different configurations, and you twist the spindle, and you're actually measuring the torque or the resistance of that spindle to turn within the fluid. Okay?

And once you take that as a platform fluids demonstrate three different types of behavior as you change the speed at which you turn that spindle. The baseline or the common denominator here is water, which is known as a newtonian fluid, which means that independent of the rate you turn that spindle you're always going to get the same viscosity reading. Okay?

On either end of that spectrum there are fixotropic materials which is also synonymous with pseudoplastic, and fixotropy is a property that is best demonstrated perhaps by something like shaving cream. Water, you put the spindle in it, you turn the spindle, which can also -- use the term "change the sheer level," you always get the same response.

A fixotrophic material, the greater the amount of energy or torque that you apply, the lower the apparent viscosity becomes, and shaving cream or whipped cream is a really good example of that. With no energy applied, it is a fallot. With just a minor amount of sheer applied it turns into a softer material, and with greater amounts of sheer it will

turn into a fluid. That's pseudoplastic or fixotrophic behavior.

On the other end of the spectrum, there is materials that would be known as dilettante, and these are actually fairly rare fluids, and simply that means that the greater the amount of energy you apply the thicker the material appears to get.

Okay, so when you say pseudoplastic behavior, you're speaking to a relationship within the world of rheology or viscosity that refers to the behavior of the fluid as a function of different sheer levels applied.

MR. REYNOLDS: I knew I shouldn't have asked that question. But basically --

MR. RIEFLER: Did that make sense?

MR. REYNOLDS: No, actually, I think it does. In other words, this is a pseudoplastic --

MR. RIEFLER: Yeah, this material --

MR. REYNOLDS: -- so if you stir it, it moves more like a liquid.

MR. RIEFLER: Yeah, the more energy you apply to it the thinner it will apparently become. And in the food industry that can be important. It sounds mundane, but it can be very important to the way the material feels in your mouth, the mouth

presence that you get out of the material.

MR. REYNOLDS: Well, if you are mixing cake mix, I mean, it helps to have it sort of liquidy at some point.

MR. RIEFLER: Yeah, I suppose. But I would suggest to you that the functionality in a cake mix is not really based on that.

MR. REYNOLDS: Okay.

MR. RIEFLER: Okay? There are certainly some what I call in the industrial food world this can be very important to process lines, how the material is pumped from vat to vat, what it does through packaging. You can imagine it's reasonably desirous to have a material thin as you pump it. It makes pumping more efficient.

And I should anticipate your next question.

MR. REYNOLDS: Yes, you know, actually I was going --

MR. RIEFLER: You know, many materials, each material has its own distinct rheological profile.

MR. REYNOLDS: Right, and CMC, that's one of CMC's great strengths is this pseudoplastic rheology behavior and dissolution in water.

MR. RIEFLER: I wouldn't say it that way. Most materials demonstrate some level of fixotrophy.

It's more of a general description if you will --

MR. REYNOLDS: Right.

MR. RIEFLER: -- as opposed to a unique characteristic associated with it.

MR. REYNOLDS: Do people who use CMC, I mean, if they are forced into a situation where say CMC increased by 30 percent price, would they shift to some other hydrocolloid?

MR. RIEFLER: You have to refer back to the concept that there are a wide breadth of hydrocolloid choices, each with price points and types of properties that are provided.

Typically, people are driven to use the higher cost hydrocolloids based on their inherent properties or functionalities.

MR. REYNOLDS: Right.

MR. RIEFLER: Certainly materials can be substituted one for another, and you can always formulate within this world, and certainly as prices go up there will be an interest to shift other hydrocolloids, but you have to look at the specific application to determine if the functionality substitution can be made as well.

MR. REYNOLDS: I would assume that since people have been driven to this CMC even despite its

higher price, because of its properties, if the price became lower people wouldn't be driven to other forms of hydrocolloids because they are looking for a particular set of properties?

MR. RIEFLER: In a generic sense you're correct. If you took a very expensive hydrocolloid, typically it's expensive because it provides greater levels of functionality or unique functionalities. And if a given hydrocolloid became less expensive, it would be --

MR. REYNOLDS: Even more attractive.

MR. RIEFLER: -- its range of utility would increase typically, yes.

MR. REYNOLDS: Right. They might actually expand the uses for CMC, believe it or not, if you refer to prices?

MR. RIEFLER: In some cases that's certainly possible, yes.

MR. REYNOLDS: All right. In your petition you mention as one of the characteristics that you use in your grades is this notion of degree of substitution. What is the degree of substitution factor you're taking about a reference to? Is it the degree of substitution for CMC products, for hydrocolloid, for some other thing that I'm not aware

of?

MR. HERAK: Okay. Any polymer, it's a little bit like a pearl necklace or something. You know, it's all these beads kind of come together, and so that's what cellulose is by itself. And then when you modify and you make carboxymethylcellulose you are essentially hooking little pendants along this bead of pearls.

And so the degree of substitution is really how many of these little pendants are you hooking to the base cellulose molecule.

MR. REYNOLDS: I got you. So it's a chemical property.

MR. HERAK: It's a chemical property, right.

MR. HERAK: And Mr. Reynolds, could I make one additional point --

MR. REYNOLDS: Absolutely.

MR. HERAK: -- with respect to your last line of questioning on the substitutability of CMC with some of the other hydrocolloids?

I would also like to point out that it's very common that the products are used in combination, because each one is giving a certain functionality and has a certain price and use. And the products which I passed around earlier you will see on some of those, I

think it's that cake mix, it has cellulose gum listed, and it also has Zanfan.

So it's a case where one doesn't do the whole job, where they need both of them. And similarly in that cocoa mix, there is both cellulose gum and guar gum.

MR. REYNOLDS: Okay. The qualification process, I think someone said that all the respondents and Aqualon are qualified throughout the market. Is it once producers quality -- I mean, are there some products for which some producers are not qualified and others that they are qualified for, or is it basically most of the participants in the market at this point have been qualified for most or all of the customers in the market and for all their product categories?

MR. HERAK: I don't know the exact answer, but I would say that at many of the major accounts most or all of the respondents would be qualified. There are probably some accounts though where the respondents are not qualified.

The qualification process, it does require a little bit of effort for the end customer, and so maybe if they are a very small user they may not be that motivated to qualify multiple sources.

MR. REYNOLDS: Yes, when you qualify for a particular customer, do you quality essentially generally for all of that customer's products and grades that they need?

MR. HERAK: It depends. Each customer would do it differently, but for example, if Duncan Hines has five different cake mixes but different formulations, they could use one type of CMC in one cake mix, and a different type of CMC in another cake mix, and they may be different qualifications procedures.

MR. REYNOLDS: Okay. How much of the market, there has been some discussion between you and Ms. Trainor about customary versus sort of commodity or standard grades. I think what I heard you say earlier when you said you had 20 basic grades, and then you have customer-based formulations that may extend up to 50 different types of CMC.

Are the 20 grades essentially sort of the commodity grades in the market or do those nonetheless still reflect customer-based specifications? Is there a difference? Does the market have standard CMC grades that essentially can be sold to a variety of different customers? And if so, how much of the market do those grades reflect, account for?

MR. HERAK: I would say that all of the major producers have a range of grades with roughly equivalent type of specifications. There is not a clear industry standard. You know, there is not a clear industry standard that defines purified CMC as 90 percent or 88 percent or 92 percent, and there is not a standard industry definition that describes a certain degree of substitution and viscosity.

But I think most of the major producers have kind of evolved a range of products that cover all of the major types of uses that would be interesting for the market.

MR. REYNOLDS: Just so you understand, I mean, from our perspective again, I am new to the product obviously, as we all would be, but we have seen a lot in a variety of chemicals cases or maybe steel cases is we see markets in which there are standard typical grades that everybody sells to everybody, and everybody knows it's essentially a commodity type of grade.

So the question I was just getting at was is this a market where most of your grades, essentially all the product you're selling are formulated for a customer for its specific needs, or are there certain aspects of the market that are commodity-based? And I

think that -- if that helps you understand to get what I'm getting at.

MR. HERAK: I mean, I think the majority of the market are the standard grades that you can -- that are produced for stock, in stock without any customization.

MR. REYNOLDS: Okay. And that's what I was getting at.

MR. HERAK: Okay.

MR. REYNOLDS: Thanks very much.

Just a couple of more questions now. I hope I'm not boring you all too much.

Do you see the respondents coming into the market, the Finnish, the Mexican, the Dutch producers, in selling essentially the same range of grades that you're selling? Or are there market niches and segments that they are serving or you're serving that the other competitors aren't?

In other words, are there -- are you selling things they are not? Are they selling things you're not? Are you generally --

MR. HERAK: For the vast majority, I think we have substantially equivalent products.

MR. REYNOLDS: Okay. And let me just ask one final question here which is, we have got a

breakdown of the market into foods, pharmaceuticals and other things, oil, and paper, and cardboard products, whatever. Do you have a sense of how much of the market each of those market segments reflects at this point?

MR. HERAK: You're talking about the total demand in the U.S. --

MR. REYNOLDS: Yes, let's say, you know, for apparent consumption say in 2004, how much did each of those market segments reflect?

MR. HERAK: I don't know the exact numbers but I think maybe I can give you an answer, which gives you a --

MR. REYNOLDS: Ballpark is good.

MR. HERAK: -- good ballpark. I mean, the four major segment -- food, personal care, oil field and paper -- together those four represents probably 75 to 80 percent of the total market. And I would say there is roughly equivalent in total consumption. I mean, oil is up and down, and so forth. And then there is, like I say, 20 percent of miscellaneous.

MR. REYNOLDS: Right, correct. Well, thanks very much. I really appreciate it, and I appreciate your patience with my lack of technical knowledge, especially Mr. Riefler, but it's been very

informative, and thank you.

MR. CARPENTER: Mr. Benedict from the Office of Economics.

MR. BENEDICK: Thank you very much for your testimony. A lot of it was very interesting actually. Now, I do want to compliment you on that petition. It's one of the best ones I've seen. Had a couple of studies in there that answered a lot of questions about the product, the physical characteristics, as well as a lot of marketing issues, so I found it quite useful when I read it.

I have heard -- let me just start off. I have heard that for Nestles, Hershey's cocoa-cocoa, you have indicated, I guess, that the Nestles uses the CMC and that Hershey's uses the guar gum.

Are you familiar with that?

MR. HERAK: No, I'm not familiar with that.

MR. BENEDICK: That's what I have heard.

MR. HERAK: Okay.

MR. BENEDICK: And I heard that they chose CMC versus guar gum based -- it looks like mostly on circumstantial situation, that they didn't compare one to the other. Is that -- and we talked about substitutes or potential substitutes for the CMC.

Are end users using one input versus another

based on some comparison of CMC versus a possible substitute? Or is it that they have familiarity with a certain product or the characteristics of a certain product and they develop that into their final product?

MR. LEBOW: I think Ms. Hallock will answer.

MR. BENEDICK: That would be fine.

MS. HALLOCK: I think it goes back to much of what Scott has already previously said in that some of these hydrocolloids can be substituted for one another. However, they will provide slightly different characteristics of the product, and sometimes people choose them on price, sometimes people choose them because a food technician at one company may be familiar with guar, someone in another company might be more familiar with CMC, and so they choose what they are comfortable with even though it may not be what we would consider an optimized solution.

Does that answer your question?

MR. BENEDICK: Yes, it does.

Mr. Thestrup?

MR. THESTRUP: Just adding to that what Ms. Hallock just said. In the case of the cocoa-products use level of either gums, hydrocolloid is very low.

So in that case you can probably use both in that application. If you increase the doses of guar gum, which is typically much higher in other indications, you tend to get some off taste from the guar gum itself.

But because the use level is so low, using either guar gum or CMC, and the primary function is viscosity, some go with guar gum, some go with CMC.

MR. BENEDICK: Okay. Mr. Klett, did you want to comment?

MR. KLETT: I just wanted to comment. I just wanted to say that typically, especially for the applications you mentioned, the percentage of the cost of the final product represented by guar gum or CMC would be very low. So you might think, well, the purchaser is not being rational because he is not comparing the cost of CMC versus guar gum in terms of what's optimal, and in part that's due to the fact that these products are a very small share of the total cost of the final products, so the purchaser may not be that sensitive to that differential.

MR. BENEDICK: Okay. Let me ask Ms. Hallock then. Do end users compare or try to see if they could use a substitute for CMC if that's what they are using, or substitute CMC for something else, another

hydrocolloid that they are using?

MS. HALLOCK: You're talking about two different chemical substitutes, not two different producers of the same chemical, correct?

MR. BENEDICK: Correct.

MS. HALLOCK: Sometimes they will. Sometimes we'll have a customer come to us and say I'm using this hydrocolloid. I would like to try and use CMC substitute for it because I think that might be more cost effective just as an example.

Sometimes it works, other times it doesn't because they end up again with a whole, you know, use level and actual cost in use going up for use because of the functionality again not being exactly the same.

MR. BENEDICK: Let me ask you, does Aqualon then try to expand the market for its CMC by approaching customers who use some other hydrocolloid to try to get them to use CMC?

MS. HALLOCK: At times we will. We are fortunate in that we have such a wide variety of materials that we can offer to the industry, so we do try to optimize the formulation the best we can.

But yes, when we see another material in there we will try and promote CMC if we think it will function.

MR. BENEDICK: Oh, I meant whether it would be a niche product that Mr. Riefler described or one of your standard products. Is that a big part of Aqualon's business to try to develop new customers or new uses for CMC? Basically, try to displace some of the other hydrocolloid?

Or is, like Mr. Riefler says, that they are used frequently as blends, and I think Mr. Herak also said that, so that you're really not displacing something, so there is not much of a market to displace other types of hydrocolloid.

MS. HALLOCK: Yes, I would say our big way of business development is to help customers develop new applications.

MR. BENEDICK: Of new products?

MS. HALLOCK: Well, new applications.

MR. BENEDICK: Okay.

MS. HALLOCK: A customer is working on a new product to enter into the market, so we want to help that formulation.

MR. BENEDICK: Rather than go after established products, and try to make more inroads for CMC?

MS. HALLOCK: Right. Again, there is some of that but the majority is --

MR. BENEDICK: Okay, thank you very much.

Okay, I will direct this to you, Mr. Lebow, and then you can either answer or have someone from the panel answer as you see fit.

Has Aqualon refused to sell its U.S.-produced purified CMC to distributors in the U.S.?

MR. LEBOW: You mean has a distributor approached it and it said no, we won't sell to you?

MR. BENEDICK: Right.

MR. LEBOW: I have no knowledge of that whatsoever, and I'm not sure if I did know it would be public.

MR. HERAK: I don't have any knowledge of it either.

MR. BENEDICK: Does Aqualon sell to distributors and end users, or mostly just end users?

MR. HERAK: Primarily to end users, but there are a few small distributors, I think, that serve a certain smaller customers that like to buy from a distributor for maybe local logistic reasons, or they can buy a basket of goods from that distributor, and it's easier for them to do that than buy directly from the manufacturer.

But I don't think that sales through distribution represents a large proportion of our

overall sales.

MR. BENEDICK: So end users prefer to buy directly from the producer?

MR. HERAK: I think the majority do because they -- if there is a distributor in between, that usually means a higher price.

MR. BENEDICK: Okay. Is there anything on the technical side they would prefer to buy directly from the producer as opposed to a distributor?

MR. HERAK: Well, I think the significant customers, they do also want to buy directly from the manufacturer so they have more access to the sales people and technical service capability of the producer.

MR. BENEDICK: Okay. Now, you said you produce and sell mostly these 20 standard products. What kind of technical service would they need to buy a standard product from you?

MR. HERAK: Well, it's hard to generalize. I mean, there are certain people that have been buying CMC for 20 years, the same grade, it works fine, they don't want to make any changes.

MR. BENEDICK: Right.

MR. HERAK: They don't need any technical service. Then there are other customers, maybe a

toothpaste manufacturer that wants to have a new launch and they want to put a stripe of blue color in the middle of the toothpaste, and the old CMC isn't, you know, getting the right stripe, and they may need some technical assistance with that, so there is a range.

But we have applications labs for all the major industries, for paper, for the oil care, for the food, for the oil field, so we have application support for the customers that are interested in that service.

MR. BENEDICK: So the service is not so much changing your formula for your 20 standard products that you make, but helping them alter or develop a chemistry for their final product that would use the CMC?

MR. HERAK: Well, it can be either one, but in addition to CMC Aqualon is selling a number of other type of water thickening and binding agents. So for example, we may say that, okay, CMC is not the best one for this application, maybe hydroxyethylcellulose would work better, or a combination of hydroxyethylcellulose and CMC.

MR. BENEDICK: Right.

MR. HERAK: So we are generally focused on

our whole product portfolio when we make recommendations to our customers. So, you know, we have the broadest range of the cellulose products of any producer in the world.

MR. BENEDICK: Does Aqualon sell a blend of hydrocolloids that would include CMC?

I think Mr. Riefler indicated that he sells blends, and I presumed that was blends of hydrocolloids. Does Aqualon do the same thing?

MR. THESTRUP: Aqualon does not sell any blended product of hydrocolloids.

MR. BENEDICK: And why would that be?

MR. THESTRUP: We are primarily a producer of CMC. We do not enter blends. It's a different technology. When you do blending you need to understand the different hydrocolloids. We don't have that experience. It is not the scope of our business.

MR. BENEDICK: Okay.

MR. HERAK: Let me just add to that.

MR. BENEDICK: Sure.

MR. HERAK: In the sense of Mr. Riefler's business for the food industry and this type of blend Mr. Thestrup is correct. We don't do any type of blends that include other hydrocolloids like, you know, Zanfan or guar and these type of things.

In some of our Aqualon business portfolio, not necessarily CMC, I think we do have some products that are blends, but that's part of the whole Aqualon business, but not necessarily a bid part of the CMC business.

MR. BENEDICK: Okay. Let me ask Mr. Riefler, are these blends unique to specific customers or are they sort of standard blends?

MR. RIEFLER: The answer is yes to both approaches. Within our product profile, we have some blends which I call work horses of specific application ranges, or narrow applications. But that would be countered with most blends start out as a very specific customer needs, and then that application will grow across the breadth of the application range, if you will.

MR. BENEDICK: Thank you for that explanation.

Back to you, Mr. Lebow, I have another question. Does Aqualon import CMC from its facility in France?

MR. LEBOW: Yes, very small quantities.

MR. BENEDICK: And why would that be since you produce it here in the U.S.?

MR. HERAK: There are some -- you know, we

have a range of products as we have already discussed, and we find that for some products it's more cost-efficient to produce them only in one facility than in both facilities.

And so there are some products -- I mean, primarily the Hopewell facility is servicing the U.S. market, and the facility in France is servicing the European market, but there are some grades which we are only making at one plant or the other, so some of those grades do come from France into the U.S. and conversely, there are grades that we sell from the U.S. into Europe.

MR. BENEDICK: Okay. Well, following up on that, Mr. Herak, does the fact that there are a number of CMC products, does this impact in any way on Aqualon's capacity to produce such that your capacity may be filled up producing certain CMC products and you can't switch over whatever is necessary then produce another CMC product right away so you actually may be at full capacity?

MR. HERAK: You know, each grade of CMC may have slightly different, you know, reaction conditions and so forth, and you know, they may have slightly different production cycles and times, but by and large the production capacity is not significantly

affected by the mix of grades which we are producing.

MR. BENEDICK: Okay, when you say "by and large," could you quantify that somehow or clarify that?

MR. HERAK: I mean, there may be some products which require five or 10 percent more time through the facility than others.

MR. BENEDICK: Okay. So does that mean that you have to create sort of like in the steel industry a production schedule, in this month we're going to produce these products, next month we'll have these products on line, and boom, you get somebody in here that says we want product X, and you say, well, that's not in our production schedule until three months from now or three weeks from now?

MR. HERAK: Essentially that's correct. We are not usually talking months apart, but we do have a production schedule that we go through to try to optimize in terms of if you have a very short run of a product, it creates a little bit of a cost on switch-over, so therefore, you know, we do try to optimize that schedule.

Essentially the answer to your question is yes.

MR. BENEDICK: Now, that would probably be a

big problem, I guess, where there were a lot of spot sales. Is that the case here, or sales are let's say on a yearly contract or a multi-year contract?

MR. HERAK: I mean, generally this production scheduling is -- it doesn't create a lot of problems for us.

MR. BENEDICK: Okay.

MR. HERAK: You know, we have a planning technique to have adequate levels of inventory that should cover all of the expected demand until that product is produced again. That's not to say that it never happens that we have a huge unexpected order --

MR. BENEDICK: Right.

MR. HERAK: -- which will create a stock-out.

MR. BENEDICK: Okay, okay. When you look at quality characteristics of your domestically produced purified CMC, could you identify what the quality characteristics would be to say, let's say your quality is better than somebody else's?

MR. HERAK: There are a number of different aspects to the quality, and it depends again who you are comparing against. If you're comparing against other high-quality producers or maybe some of the second tier, some of the Chinese and so forth, but I

mean it's generally the rheology response of the polymer, you know, in the application, and really consistency around that response.

There are some producers, say in the -- maybe say take some of the Chinese producers for example, they may be able to give you a sample that will work just fine when you test it in a lab, but when they do their production they may have a lot of variance so you won't get a consistent, you know, performance in the specific application.

So I think it's really around consistency of performance in a given application. That can be because of the degree of substitution, because of the viscosity, there is different factors, but it's really that consistency of performance in the application.

MR. BENEDICK: Okay, those characteristics of CMC like viscosity and whatnot, they have ranges generally.

MR. HERAK: Um-hmm.

MR. BENEDICK: Now, a more consistent product or more consistently performing product, it would have a narrower range than let's say the range that's given for that grade, and that's what makes it a better quality?

MR. HERAK: There are a lot of possibilities

of what can impact the consistency of performance. You could have two samples. You measure them in viscosity. They would have the exact same viscosity. You measure them in degree of substitution. They may have the exact same degree of substitution, but they would have different performance, because we go back to that analogy with the necklace, whatever the -- the chain of pearls and the pendants hanging off. They may have the same number of total pendants, but they may be all bunched up in one corner as opposed to evenly distributed.

Or of course, all of these CMCs, there is mixtures of many, many chains of these pearls in there, and you can get two samples which would have the same viscosity measured at a certain sheer rate, as Mr. Riefler was discussing, but they would have a different viscosity response in terms of if you increase the sheer they may not have the same performance.

MR. BENEDICK: Okay.

MR. HERAK: So it's not only the specification. It's really about the consistency of the molecules themselves.

MR. BENEDICK: Okay. Then does that -- those differences, do those differences get exhibited

from producer to producer? For instance, you versus Noviant or Akzo or Amtex?

MR. HERAK: When you say "exhibited," you mean?

MR. BENEDICK: I mean do they have -- does their rheology perform a little bit differently than yours? And so for some customers they may prefer your product to the Noviant product because they feel like it works better for them?

MR. HERAK: In some rare exceptions that may be true, but I think by and large most of the customers can quality material from all of the respondents and Aqualon.

But of course, we have a few niche product, specialized products, and we try to expand that as much as possible to create this differentiation. We would like nothing more than to have more differentiation in the CMC industry. But given that it's an industry that is, you know, 60 years old, there isn't that much differentiation these days.

MR. THESTRUP: I think it's important to understand, as mentioned before, we have those 15 to 20 main types or mother types which is really the work horses in our CMC business, and competition, we believe, has like product to the 15 to 20 products.

Outside that, those customers' specific products, in some cases --

MR. BENEDICK: I understand that, okay.

I have another question for you, Mr. Thestrup, following up on this.

When you market -- now it sounds like there is 50 products, not just 20 that are the standard. When you market your Aqualon's product and you're in competition with Noviant and Akzo, and others, do you say your quality is the same as ours? I mean, how do you differentiate your product when you try to sell it to a customer knowing, as you said, you know who you're competing against when you are competing against somebody like Noviant?

MR. THESTRUP: Well, you talk about the main types, the bulk of our business on the fact that we are a local producer so logistically being locally in the U.S. we believe that is important. We believe that we do offer a better service if something should go wrong, as well as education, knowledge. We do believe that in certain areas we are stronger than competition.

When we talk about, you know, those mother types, which is the bulk of our business, it's probably not that much difference between our product

and the competition. So quality-wise, that's probably not a main argument.

MR. BENEDICK: Okay. So product characteristics, you don't try to compete on the characteristic of the product so much as the service you offer, the fact that you're domestic so it's easier to get in touch with you, that kind of thing?

MR. THESTRUP: Well, it's obviously -- you know, depending on the customer, the education. If we feel that this is a special type of application, this is a special recipe technology that the customer is using, we obviously try our best to optimize our product to the customer use being the education or the process, production process of the customer, and we will develop in those cases specialty type for that customer or for that application, yes.

MR. BENEDICK: But what you said or the 50 to 20, or 20 to 50 standard products --

MR. THESTRUP: Fifteen to 20.

MR. BENEDICK: Oh, 15.

MR. THESTRUP: Fifteen.

MR. BENEDICK: Oh, I'm sorry. My mistake. You compete mostly on service, and the fact that you are a domestic producer, and more recently you have indicated you are competing on price again?

MR. THESTRUP: Yes.

MR. BENEDICK: Okay. Ms. Hallock?

MS. HALLOCK: If I can comment about specific customer discussions that I have had.

As much as we do try to differentiate on quality and try to emphasize the differences that we do have as far as specifications where there are differences, generally the purchaser will push back and not allow that differentiation. Again, they will push back for the pricing.

MR. BENEDICK: Okay. Okay, thank you.

Okay, I have one last, and this is a request if you could supply it in your post-conference brief, Mr. Lebow. Would you specify the approximate share of total U.S. production costs that is variable, and the share that is fixed in Aqualon's production of its purified CMC?

And for the variable costs identify the specific costs, and the same for fixed, what they consider to be fixed costs?

For the variable, I just need a share or percentage, so basically two percentages and they would add up to 100. And for the fixed costs what the items were that you consider to be fixed, and for the variable costs what items you consider to be variable,

and this is just to quantify your assertion that this is a very capital-intensive industry, because obviously a capital-intensive industry has sort of a different pricing strategy than one that's a variable cost industry.

MR. BENEDICK: We will do that. Thank you.

MR. BENEDICK: Thank you.

MR. CARPENTER: Ms. Foreso from the Office of Industries.

MS. FORESO: Just one question. Mr. Herak, you said you do import from your plant in France, and you also mentioned earlier that you now have a plant in China since December 2003. Do you also bring in imports into the U.S. from the Chinese plant? And if so, what are the markets?

MR. HERAK: We have not imported any product from China into the U.S., and we don't have any intention to do so in the foreseeable, you know, near-term future.

MR. CARPENTER: Mr. Mehta from the Office of Investigations.

MR. MEHTA: I have one general question. In the producers questionnaire the Commission asked the producer to provide asset data to compute the domestic industry general investment based upon asset data. As

you know, internal investment is an indicator mentioned in the statute.

So if you have any suggestion or recommendation to compute return on investment on any other basis, please comment now or you can provide that in your post-conference brief.

MR. LEBOW: I think we will provide that in the post-hearing brief. Thank you.

MR. MEHTA: Okay, thank you.

MR. CARPENTER: Ms. Mazur, the supervisory investigator.

MS. MAZUR: Thank you very much, gentlemen, Ms. Hallock. A few follow-up clean up questions.

Regarding the qualification process, how time consuming is it for you and the customer, and how costly is it for the two of you?

MR. HERAK: I think that the qualification costs and procedure, it depends a lot on the specific customer and the application, but I would say in many applications it may -- kind of a typical example would be that the customer may take one month in a lab to do a little bit of work, do some testing, maybe they will do a pilot trial like in their plant, maybe that takes another month, and then the material could be qualified. I would say that's kind of a typical

example.

Some companies may be more thorough and it may take six months, some may be able to do it in two weeks, but I think a few months would be very typical.

I would say that, in general, if they can do most of the testing at a lab, a pilot plant scale, it's not that expensive for them to qualify the materials. There is a little bit of labor, of course, in doing some testing, and so forth.

As for the cost for Aqualon as a supplier, if it's one of our standard products, then there is not that much cost for us at all. Sometimes it's just a salesperson is visiting, they have a discussion, they offer some samples, and then the rest of the work is with the customer.

In certain example, maybe it would require us to work with the customer. We would offer to maybe do some formulation work in our laboratory, and maybe share some of that cost.

So for example, if there is lab work that takes one or two months, we could maybe do that in our lab or part of in our lab instead of at the customer's lab.

Does that answer your question?

MS. MAZUR: Yes, I think so.

So in terms of a range, it could take from just a few weeks to months, and in terms of expense, what might we be talking about in terms of a range?

MR. HERAK: I think you have to break it down into man hours. Maybe I would say a typical example if it's two months of work, probably the person though that's doing the work is not 100 percent on that, they are probably some other projects, so maybe 50 percent of a person for two months, so one man month of cost may be typical.

MS. MAZUR: Okay. Thank you. That's very helpful.

With respect to nonsubject imports, I know you have kind of characterized them as being relatively small presence in the marketplace. Respondents in their opening comments made some sort of a reference to the impact of nonsubjects in the marketplace.

Can you expand a bit more in terms of who the other players are, the nonsubject importers or producers, and the price range that they are in?

MR. HERAK: As I mentioned in some of my earlier testimony, there are a number of major producers, and I think most of them are selling some product in the U.S. So in terms of the nonsubject

countries, or producers, there is Wolf in Germany. I can't remember the exact import statistics, but I think it's quite small, maybe 500,000 pounds coming into the U.S., something like that.

There is a little bit of material coming in from Japan as well. I think maybe one million, one and a half million pounds coming in from Japan. And there is a little bit more material that's coming in from China recently, I think one to two million pounds.

I think those are the primary imports from the non-respondent countries.

MS. MAZUR: Do they tend to be specialty products as far as you know, or are they generic CMC type products?

MR. HERAK: I think they are primarily generic types. There may be some specialty, but primarily generic.

MS. MAZUR: Okay.

MR, KLETT: Ms. Mazur, this is Dan Klett.

Just based on our own compilations of the data from the census data, and you have more specific information in your staff report from the questionnaires, of course, but I was a bit perplexed when the other side talked about the other impact of

nonsubject countries because, I mean, based on our calculations the subject countries account for roughly, you know, 80 percent of total imports.

MS. MAZUR: That's what I was trying to get at, what might be out there in terms of what they are going to be arguing, and we'll have to wait until this afternoon or a little later to find out. Okay, thank you.

Let's talk a bit about -- within the CMC family we've talked about crude, which is excluded from the scope of the petition. What about the other two exclusions that you footnoted in the petition, Footnote 6 and 7, the FPS, the aqueous solution and the cross-linked CMC?

If you could now just briefly, Mr. Lebow, go over the Commission's six like product factors and kind of discuss some more in detail perhaps in your post-conference brief, particularly differences in uses, interchangeability and price.

MS. MAZUR: Sure. We can go over it now. I am going to put the six factors in front of Mr. Herak, and I suspect that he can even just speak to some of them now because they are so different.

MR. HERAK: In terms of the like characteristics, the first product is a cross-linked

CMC, sometimes called cross-carmelose. That's a product which we do not manufacture. I believe that both Akzo and Noviant as well as maybe as well as some other companies are making this product.

To my knowledge, it is primarily used as a disintegrant in the pharmaceutical industry, which basically means it helps the tablet dissolve quickly once it reached your stomach.

And that product is typically priced much higher than other grades of CMC.

MS. MAZUR: So since you don't produce it, you have no idea about the differences or similarities in the manufacturing process?

MR. HERAK: I believe, but I'm not certain, that it starts with production of CMC, and then there is some type of thermal or other cross-linking that is done after, so it's like a further treatment of the CMC after the first part of the production is completed.

MS. MAZUR: All right. Do you have any feel for the differences in price between CMC?

MR. HERAK: I think it's on the order of double the price of CMC, or maybe more. It's substantially more. It's not 10 or 20 percent. It's in the order of a factor of two.

MS. MAZUR: Okay. And the FPS CMC?

MR. HERAK: The FPS, which stands for fluidized polymer suspension, it's a patented product which Aqualon has developed. The other companies are not making that product because under patent law they are not permitted to make it at the current time. And it's really, it's a niched product, kind of specialized to allow some customers to use CMC in a liquid or fluid form at a high concentration instead of a powder. There are some companies that prefer to use a liquid as opposed to a powder, so that's really what that product is targeted at.

It does require a substantial amount of additional materials and manufacturing cost after the production of CMC, so it has a much higher cost, and higher price, but there are certain niche segments of the market that are willing to pay that higher price for the benefit of having a liquid.

MS. MAZUR: Can you characterize how much higher that price might be?

MR. HERAK: I mean, we can maybe give you some more specifics in the post-hearing brief, but it's in the order of double or something, maybe more.

MS. MAZUR: Okay, thank you.

MR. HERAK: Especially on an active basis

because a lot of the material is non-active in the fluidized polymer suspension.

MS. MAZUR: And also now if you could or perhaps in the post-conference brief give us a sense of how big these two products are in the marketplace in terms of the volume?

MR. HERAK: Well, certainly for the FPS we can give you a very accurate number for that. For the other, it would -- we would have to make some guesstimates based on industry reports.

MS. MAZUR: If you could do that.

MR. HERAK: Okay.

MS. MAZUR: And we'll seek additional information from respondents as well. Thank you very much.

Also in your post-conference brief could you provide us with the cost of production for purified CMC by stages of production, if that's possible? I mean, if you can, you know, isolate the various stages and the cost to produce.

MR. HERAK: That's information that we -- we certainly don't measure our production cost in that way today. I think it's very difficult to try to isolate the cost in a step-by-step basis, because you get into a lot of allocation of labor and capital, and

you know, some of the capital is new, some of its depreciated. Whatever we could give would be very, very rough, I think.

MS. MAZUR: All right. How about just, you know, a rough estimate --

MR. HERAK: Okay.

MS. MAZUR: -- possibly in the post-conference brief.

Lastly, I wanted to touch very briefly on some of the initial results that we are seeing from the data that have been submitted in questionnaires, and ask you to comment generally now, and then of course in your post-conference brief.

The volume of subject imports from Finland, I know the petition had a methodology for estimating subject imports. But we're finding that the volume of products from Finland is dramatically different in terms of being lower in volume than what you have estimated in the petition.

Could you comment on that now in terms of how you -- your assessment of that, and of course, in your post-conference brief?

MR. KLETT: Well, being very careful not to divulge any APO information here, the differences between the actual questionnaire results and our

estimates are in part due to roughly to a fairly crude methodology for our estimates based on the level of detail that were in the census statistics.

We extracted what we believe to be crude based on a price point, and what was left over we assumed to be purified.

But the actual data that you collect in your questionnaires in theory could differ, and we expect it to differ from that. So I think it has more to do with the data that we -- the level of detail that we were forced to use where it was available based on our methodology from the census data allowed us just to make fairly crude estimates of what was coming in of the subject purified product.

MS. MAZUR: Okay, that's fine.

And speaking of your methodology, to the extent that the Commission does not get sufficient questionnaire data or response from importers of nonsubject product from nonsubject countries, would you recommend that we use your methodology to estimate those nonsubjects?

And again, I notice that for Commerce, the Department of Commerce, you have refined your methodology a bit by saying subject product is above 80 cents but below $2.75.

MR. KLETT: That's correct. We were asked by Commerce to make a further assignment of our methodology to exclude volume that came in at unit values above $2.75 a pound. It had virtually no effect on the results since there was very little volume that came in at those levels.

In terms of what to use in your staff report, I think the census data, if you don't have information in your questionnaires for purified imports from the nonsubject countries, that using the census data and some methodology to estimate what is purified is the best way to go.

And I would also say that because subject imports is such a small share of the total market, you know, in terms of import, for subject import market share tends and subject import share magnitudes, differences in the methodology you use to calculate nonsubject imports from the census date really has very little effect on those trends, magnitudes.

MS. MAZUR: Okay, thank you.

And lastly, Mr. Herak, you spoke this morning about some of the effect on your business that the subject imports were having. You talked about declining volumes and idle capacity.

Again, looking at a preliminary review of

the data from the questionnaires, we're not seeing a declining volume that you were talking about.

What specific kinds of volume declines were you in fact talking about this morning?

MR. HERAK: I think from the beginning of the period there were very substantial declines in volume from 2001 to 2002, and then some improvement in 2003. But the volume in 2003 is still, I believe, quite a bit less than at the beginning of the period.

MS. MAZUR: Well, that's true. As the petition has also shown, there has been a bit of a spike in 2002. 2001 was one level, an increase in 2002, and then a decline in 2003.

What happened in 2002 to cause this spike or what happened in 2003 to bring the trends down both on the U.S. side and on the import side?

MR. HERAK: Well, as I was discussing earlier, the respondents were particularly aggressive in the market. We were somewhat surprised and caught off-guard by the low pricing; did not respond by matching the pricing, and therefore we lost very significant market share during that time.

And it's a process. You know, there is these contracts are coming up for bid, and little by little you are losing, but the impact really was

compounded in 2002, so that was really the low point in the total volume.

And then as we did become more responsive in terms of matching these very low prices, we did regain certain position. That's why you see an improvement in our sales in 2003, and probably therefore a commensurate reduction in the imports.

MR. KLETT: Ms. Mazur, this is Dan Klett.

I think also what was going on in terms of, you know, 2001 to 2002 and 2003, there was an oil field component there in terms of demand.

If you look at -- as Mr. Herak testified -- in terms of the applications of CMC goes into, oil field demand is one of the most cyclical and volatile, and if you look at a publication like Baker Hughes that has oil rigs in place, you will see a dramatic decline from 2001 to 2002, and then an increase in 2003 and 2004.

So part of that lift up and down that you see in the data is a cyclical-related factor.

MS. MAZUR: Okay, that's very helpful.

Any other segments that you care to characterize in terms of their impact on the trends?

MR. LEBOW: I think that's the only segment that we see as cyclical, and I think you will also see

that the trends of increasing imports and declining domestic share is much greater than could be accounted for by cyclicality. It may have amplified it a bit, but the price effects that we have been talking about is what really hit in that period.

And again, as several witnesses have testified, Aqualon made a conscious decision to try to match some of these low prices to get some share back towards the end of the period of investigation, and did that, but the effect on the bottom line has been very bad.

MS. MAZUR: Okay, thank you very much.

MR. CARPENTER: I have a few follow up. Let me start first with points that counsel for the respondents brought up in their opening statements, and get your reaction to those.

First, I heard Mr. Clark making the argument that whereas Aqualon's product tended to be sold or focused more in a commodity market, that Noviant's philosophy was more of a customized, value-added philosophy.

Do you see a distinction there in terms of your knowledge of the market that Noviant's product tends to be more customized and value-added by and large than your product?

MR. HERAK: I would say by and large, no. I think that each of us have some niche products where there may be some specific value-added for certain application. But for the vast majority of the markets the products are essentially interchangeable.

And I would be interested to hear of examples of substantial increases in business for Noviant that were obtained because of improved performance or specialization of their product, and not because of the low price that was offered to the customers.

MR. THESTRUP: And just adding to that.

MR. CARPENTER: Sure. Yes.

MR. THESTRUP: From the imports where were we can see a specific type of competition that was mentioned from some customer information, the types that like Noviant is offering is countertypes to what we call the main types or the mother types in the industry, which is the bulk of our businesses.

We only rarely see the specialty products in the market. We believe that Noviant, but this is again an estimate, is importing maybe maximum 10 types into the country.

MR. CARPENTER: Thank you very much.

Turning to the question of cumulation, I

understood Mr. Neeley to be indicating that they would be arguing that Mexico could not be cumulated, and I believe he made a statement that Mexico has essentially a couple of large customers that would not buy from Aqualon, and we can explore that further with them this afternoon, but do you have any insights on that as to whether that may be true?

MR. HERAK: I don't have any insights on that particular comment. But with respect to cumulation, we do see the Quimica Amtex product being distributed throughout most of the states in the U.S. where we are selling. We have seen them offering product to many of our customers in the food industry, in the paper industry, in the oil industry.

So I think that the product is readily available in the market. Maybe they have a few customers that are the majority of their sales today, but I don't think that's representative of their overall approach and sales to the market.

MR. LEBOW: I think again I have to be careful about propriety information, but just if there are other methods of selling rather than direct sales, it could be that there is wider distribution.

MR. CARPENTER: All right, thank you.

A couple of questions now on like product,

particularly questions involving the crude versus the purified form CMC.

Mr. Herak, I'm not sure if it was you or not, but I got the impression that your production process was essentially a continuous process from the crude through the purified; is that correct?

MR. HERAK: Yeah, we call it semi-continuous or the discrete operations.

MR. CARPENTER: Right.

MR. HERAK: But they all keep moving in sequence. The product keeps going through.

MR. CARPENTER: Okay. I apologize if this was asked before, but do you have any sales of the crude product into independent markets, or do all of your sales of the crude go into the purified?

MR. HERAK: We do not produce or sell crude material in the United States.

MR. CARPENTER: Okay, thank you.

With regard to Ms. Mazur's question about value-added at the different stages, and she may have had more stages involved than what I'm thinking of, but as you indicated in the petition, you produce the crude and the purified at separate production facilities using separate production workers.

Therefore, I'm not understanding why

allocations of labor or capital equipment would be a problem in terms of just trying to separate out your, or trying to determine what the value-added is from the crude form to the purified form.

MR. LEBOW: I don't understand your question, Mr. Carpenter, because Aqualon does not produce crude CMC. I mean, they have a continuous production process in which there is a reaction, which if it were stopped, and if it were a stand-alone factory, which is not, there would be crude CMC.

But the chemical reaction leads right into the purification, the repurification, the separation of the alcohol and so forth, and the drying and the grinding. So there is no crude, distinct CMC production at all by Aqualon.

And we're not even sure whether respondents have a continuous process which would actually have a discrete crude production, or whether they have crude plants and purified plants totally separate.

But there is no crude production facility or a way to segregate data on crude production because it's not something that Aqualon produces.

MR. CARPENTER: Okay, I'm just looking at the statement in your petition where it says, "Purified and crude CMC operations in the United

States have entirely separate manufacturing facilities and production employees."

MR. LEBOW: I was referring there to that small separate crude producer, Penn Carbos.

MR. CARPENTER: Oh, I see.

MS. MAZUR: I'm sorry if it wasn't clearly written.

MR. CARPENTER: Okay. Okay, I understand. Okay, that completes my questions. Are there any other staff questions?

Ms. Trainor.

MS. TRAINOR: Back to the characterization of the purified CMC as a commodity product. If I understood the testimony correctly, there are 15 to 20 standard products that are produced, and then perhaps up to 50, to bring that number up to 50 that are tailored or specified for particular customers.

That says to me that that's a highly engineered unique product. Could you speak to the difference between a highly engineered product and characterizing your purified CMC as either a commodity or a highly engineered product?

And then as a follow on to that, and perhaps you can't do it in a public forum, and if not, please put it in your post-conference brief, provide us with

a percentage of the allocation of your production and sales to this 15 to 20 percent standard product versus that 20 to 50 percent highly specified or highly engineered product.

MR. HERAK: Okay, let me try to help you understand the situation.

I think the highly engineered is maybe a bit of an overstatement in terms of what the differences are between the 15 to 20 standard grades and the other specialized grades.

In many cases the specialized grades are just a subset of the standard grade. So for example, if we have a generic vanilla product that has a viscosity specification of, you know, 1,500 to 3,000, we may have a certain customer that will ask us, well, really, if I get above 2,500 in viscosity it doesn't really work that well in my application. Can you give me a product only between 1,500 and 2,500?

So we will create a certain subtype so that we make sure we give this customer something in that particular range. Those would be the vast majority of the special products. They are in fact subsets of the larger family, not something that was manufactured to a completely different process or anything like that.

And also one of the characteristics of our

product which we didn't talk about earlier, but it is also particle size. So for example, let's say we have a lot of 15 standard products, but then you could also have the standard particle size, you could have fine grind, you could have a coarse grind, so that's just a different physical form from the mother grade, but it would give the same characteristics once it was dissolved into the solution.

MS. TRAINOR: And the breakdown, again I don't want it to go to anything that's proprietary, between that 15 to 20 percent, and then that 20 to 50, if it's not something you can discuss here, would you --

MR. HERAK: We can address it in the post-conference brief.

MS. TRAINOR: Thank you.

MR. CARPENTER: Mr. Benedick.

MR. BENEDICK: I just have one more request for Mr. Lebow for the post-conference brief.

If you could specify the time line of Aqualon's pricing strategy from January 2001 through March 2004, or what period in other words I think you indicated you held firm on pricing, and you were taken back, caught by surprise so to speak of the low pricing in the market, and when Aqualon started

pricing aggressively to get market share back. Thank you.

MR. CARPENTER: Once again, thank you very much, panel, for your presentation and for your thoughtful responses to our questions.

At this point we will take about a 10 or 15-minute break, and ask the respondents then to come forward for their presentation. Thank you.

(Whereupon, a short recess was taken.)

MR. CARPENTER: If everyone could take a seat, we'll resume the conference, please.

Please begin whenever you're ready.

MR. BODICOAT: Okay. Good morning. For the record, I'm Dr. Steve Bodicoat, Vice President Marketing, of Noviant. As VP Marketing, I'm responsible for interalia strategy, market developments and communications within Noviant, which include all the CMC products produced by Noviant.

Noviant sells around 1,300 tailor-made CMC products around the world. The distinction between crude and pure CMC that Hercules Aqualon has drawn in this case is artificial and is based on a production view of the world, not the commercial one.

I became Marketing VP on the 1st of January, 2004. I have a Ph.D. in organic chemistry and have

spent 20 years in the specialty chemicals industry with Unilever and ICI, the world's largest hydrocolloic producer, in various commercial functions. I have sold into the markets for detergents, personal care and food and in the last 10 years been specifically involved in the development of hydrocolloic strategies.

Gem Hueber, the parent company of Noviant, is a U.S. family-owned business founded in 1883. Hueber is one of the largest family-owned businesses in the United States. In addition to its New Jersey global headquarters, the Hueber Group has production facilities in 13 states with over 2,500 U.S. employees.

Noviant sells a broad range of CMC products that are suitable for use in a variety of industries, including food, personal care, paper and oil field drilling. Our sales office in the USA is located in Morrow, Georgia, and our manufacturing facilities for CMC are in Finland, Sweden and the Netherlands.

Each production plant focuses in purified CMC for specific industries. The Finnish plant primarily provides purified CMC to the end users in the paper and oil industry. The Swedish plant primarily supplies purified CMC to the food and

personal care industries, and the Dutch plant mainly supplies purified CMC to the food industry.

The CMC industry is a truly global industry. We sell to some 82 countries around the world, and the consumption of CMC in Sweden and the Netherlands is very small relative to world demand.

There are five points I'm going to make today to assist in understanding the CMC market in the United States both from a historical perspective, as well as its current condition. These points will be supported by substantive evidence in our post-conference brief, and they will paint a markedly different picture than the one Hercules Aqualon will have you believe by reading its antidumping petition.

First, although omitted from its petition, Hercules Aqualon itself is responsible for depressing U.S. prices, particularly over the past year. Noviant has lost significant sales and revenue because of Hercules Aqualon's low-pricing strategy.

Second, the customers to which Hercules Aqualon has historically supplied CMC, namely customers in the paper, personal care, food and oil industries, themselves are depressed, which naturally affects suppliers such as Hercules Aqualon.

Third, Hercules Aqualon exhibits all the

characteristics of becoming a commodity producer. This is evidenced by the lack of tailor-made product variety and minimal technical service support.

The systematic disinvestment of Hercules Aqualon due to an aggressive cost production program first announced in 2001 resulted in 1,387 jobs disappearing by December 2003. This has resulted in not meeting customers' expectations for support, and some of these employees have been recruited by Noviant.

Fourth, there are many products that may be substituted for purified CMC, including so-called crude or technical CMC, which is not covered by the petition.

Finally, non-subject imports are gaining increasing market share. A share of those non-subject imports are from companies that are affiliated with Hercules Aqualon.

Consequently, any injury to Hercules Aqualon is for one or all of these reasons, and most are not because of imports of purified CMC from Finland, Sweden and the Netherlands.

Let me address each of these points in turn in a bit more detail. Hercules Aqualon has made a fundamental decision to compete on pure price. Price

was mentioned a lot this morning. I didn't hear anything about value.

As I mentioned, Hercules Aqualon is itself responsible for depressing prices of purified CMC in recent months. Hercules Aqualon's low prices have resulted in Noviant losing sales and revenue. In March 2003, we tried to raise our prices. One of the reasons for the price increase was because of the escalating cost of raw materials.

We never converted this price increase because Hercules Aqualon approached customers with lower prices. We believe that Hercules Aqualon was facing the same increases in raw material costs, as well as high energy costs, and yet were selling at a lower price.

From the period the 1st of April 2003 to March 2004, we estimate that we either lost sales or revenue on around 3,000 metric tons of actual CMC due to Hercules Aqualon's aggressive pricing. In addition, we failed to gain business due to unattractive market prices. We will provide confidential information in support of this point in our post-conference brief.

Second point. Hercules Aqualon has supplied customers with purified CMC in currently depressed

industries. While demand for CMC in the United States overall is static in most industries, certain users have decreased their demand, while others have become depressed.

Aqualon's business strategy is to aggressively pursue a customer segment who will purchase on pure price factors alone. Noviant, by contrast, offers customers a tailor-made, specialized product and provides significant value and use. Noviant has used its technical service capabilities to convert the paper industry from other chemical usage.

The jump in Noviant's business in 2002 over 2001 relates to a very large extent to one customer, which Hueber Noviant already enjoyed a strategic supply relationship and where price was not the sole or even the principal criteria of purchase. Instead, the business has expanded by Hueber Noviant based on existing strategic supply relationship and Hueber Noviant's commitment to customer specific product formulation and process technical support.

Point three. Hercules Aqualon's business decision to treat CMC as a commodity business. In the same way as the migration of commodity industries have moved from domestic markets to the Far East, Aqualon is doing Commodity Strategy 101. Hercules Aqualon has

significantly reduced the technical support, including product development initiatives, that it provides to its customers instead of treating CMC, which needs further technical support.

Indeed, in the recent past, Aqualon transferred sales and marketing activities for CMC to the large food industry to CP Kelco, a company with no history in CMC. It is well known in the industry that this corporation was not a success and hence Aqualon canceled it.

This is in direct contrast to Noviant's business model, which recognizes CMC as a highly specialized product. We have made significant investments in providing technical support and product development initiatives for our CMC, which allows us to price CMC based on how our customers will use the CMC and the value they receive in the application.

Our customers view our purified CMC products as helping them improve productivity, saving them money, increasing their product revenue and allowing them to avoid significant capital investments. We provide substantial technical support to our customers and our products and are seen by our customers as being innovative. Our customers view us as a strategic partner to their business. We react quickly

to what our customers want, and the value is for that reason.

You should also be aware that Aqualon has production limitations and cannot make certain grades of CMC products. U.S. customers will be disadvantaged if they cannot obtain certain types of products. Hercules Aqualon is unable to make CMC for certain paper applications and does not directly compete in certain products in food and personal care applications.

In fact, Hercules Aqualon has made no CMC related investments in the U.S., but has only invested in non-subject matter cellulose products such as HTC or MC. They have also closed down their monochloracidic plant, a key raw material, in Hopewell resulting in an acid impairment charge.

Hercules Aqualon's disinvestments in CMC is particularly apparent in the area of technical support where Hercules Aqualon reduced a large portion of its technical staff, as I said, some of which have now joined Noviant.

Point four. There are several other products that purified CMC must compete with that are recognized by the marketplace's close substitutes such as other hydrocolloids, guar gum or hydrocolloid

blends, as we've heard this morning.

Even certain applications of crude CMC, which is conspicuously not covered by the petition, compete with purified grades of CMC. In our post-conference brief, we will provide details of Noviant's technical grade products taking shares of purified grade products in the oil, paper and mining industries.

We were able to make these sales because our technical product has high functionality that commands a premium. In some instances, our so-called technical product is priced similarly to the purified version. For that reason, the import quantities and values provided by the petition for Finland are inaccurate, as was evidenced this morning, because they include high-priced technical products that are not covered by the scope of the investigation.

As a result, the import quantities and values are overinflated for Finland. When we make the adjustments for the pricing of Noviant below 90 percent CMC, the volume of imports compared with Aqualon's numbers brings it structurally lower over the period by approximately 5,000 tons per annum.

This is an example of the price paradigm Aqualon is in. They believe that the price is

inherent in the product and related to cost. Noviant believes it is not. To Noviant, price is a function of value and use of the total customer support package that we provide.

Looking at the issue of substitutability on an end use basis, there is a long list of products that can replace purified CMC. In paper, synthetic thickeners like polyacrylates are important threats to replace dry CMC, including the fluidized versions of CMC for which Hercules Aqualon is the sole source.

Runnability of the paper machine and many other factors influence a paper mills decision where synthetic thickener will be used and where CMC will be used, carboxymetholated starches or other materials that could replace purified CMC in paper applications.

Oil. To an extent, derivatized starches can be used in oil applications at the expense of CMC, and also guar is used. In construction, in wallpaper glue methylcellulose is the high performance material amongst others sold by Aqualon, but CMC has replacement potential both at the expense of methylcellulose and starches.

CMC is used in paint, and Noviant is specifically targeting HTC in paint and MC in construction with Noviant's new product, Cellflo.

Both HTC and MC are produced, among others, by Hercules Aqualon.

In food and personal care, a number of different possibilities for replacement exist. Guar is an example of a natural polysaccharide that is widely used in food applications and is competing with CMC. It is worthwhile to note that Aqualon is producing and selling guar to several industries where Noviant is not.

Natural polysaccharides have several food applications and have considerable overlap with CMC. Reference books like the Hydrocolloid Handbook, Edition 2004, written by Andrew Haffler, a former Hercules employee, shows that CMC is just one of the many choices that food formulators and food technologists have in solving their texture, thickening or rheology related problems.

With respect to the issue of substitutability, you should also know that in general there are substitutions possible where purified is replacing crude grades. This is an indication of the fact that CMC is qualifying on more than price only because typically the purified CMC would command higher prices than the crude grades.

In other words, it is the functionality of

the purified CMC product that is prevailing over the lower priced technical CMC, and its functionality is not related to purity of the product.

Number five. Non-subject imports, including from the companies related to Hercules Aqualon, are the cause of any injury. Some of those non-subject imports are from companies that are affiliated with Hercules Aqualon. Noviant believes that virtually all the imports from France are produced by Hercules Aqualon's French affiliate in Alavay.

In fact, the proportion of imports brought into the U.S. by Aqualon relative to its capacity is of a similar order of magnitude to Noviant. As important, in December 2003 Hercules Aqualon acquired a new affiliate, formerly Quantum Hightech, now called Hercules GMM, that produces purified CMC in China.

The president and CEO of Hercules at the annual shareholders meeting on May 12, 2004, said the following about the Chinese affiliate, and I quote:

"The acquisition of Quantum, now known as Hercules GMM, is a good example of our strategy for growth and emerging markets. It fulfills our criteria for acquiring a business that compliments our products and expands our market position.

"This is an excellent strategic fit for our

Aqualon Division, giving it a strong regional presence in Asia-Pacific. It also provides a low-cost manufacturing base and offers a channel for marketing other products in China. It performed beyond our expectations in the first quarter of this year."

Hercules Aqualon did not file a petition against France or China, despite the import levels from these countries. We cannot help but wonder whether this antidumping case is part of Hercules Aqualon's strategy to force U.S. customers to buy from Hercules Aqualon or its Chinese and French affiliates.

Both of these plants, with a combined capacity of around 21,000 tons, more than its USA capacity, produced CMC products for exactly the same markets as the U.S. plant as shown on Hercules Aqualon's website. Imports, as we heard again this morning, are also entering the United States from Germany and Italy.

As I said earlier, if there is any material injury to Hercules Aqualon, it is due to any one or all five of these reasons and not because of imports of CMC from Finland, Sweden and the Netherlands.

Thank you for the opportunity to appear this morning. Also present with me here today is Ken McKenzie, who set up the Noviant business in the USA

in 1991 and is now responsible for new product development in Noviant. Either of us will be happy to answer any questions you may have.

Thank you.

MR. REID: My name is Jim Reid. I am Business Manager Americas for Akzo Nobel Cellulosic Specialties, Inc. I started as a formulation chemist.

I'd like to begin by confirming Noviant's comments regarding the importance of operating excellence with regard to customer and technical service. These are crucial factors of success when selling to the food, personal care and oil drilling industries. I cannot speak about the paper industry as Akzo Nobel does not sell to this industry.

For my testimony, however, I would like to focus on the issue of interchangeability of hydrocolloids. As a former formulator, I would like to comment that there is no better feeling than to know that you have a lot of options. The strongest factor concerning marketing of purified CMC is the fact there are numerous other hydrocolloids that can offer the same functionality a CMC.

These other hydrocolloids, or many of them, are derived from natural raw materials, and often if there is a bumper crop a price drop can be seen for

these hydrocolloids in the marketplace. Their usage becomes more attractive to formulators of food and personal care products.

Most formulators have multiple recipes for their products and can change their raw material selection very quickly to take advantage of favorable pricing. If you read the label of a prepared food or a tube of toothpaste, you'll see multiple hydrocolloids listed in the ingredients. The respective levels of each hydrocolloid cannot be differentiated. They can vary dramatically.

As formulation research is always ongoing in food, personal care and drilling muds, chemists are always finding less expensive ways to accomplish the same functionality or finding ways to improve product performance. In the latter case it is not always price driven, but CMC could be displaced by another gum because its performance is simply better.

It has been found in many cases that blending CMC with another hydrocolloid, such as starch or guar gum, can produce a more effective performance than CMC alone. An example of the use of a combination of hydrocolloids is this tube of Aquafresh toothpaste. The FDA requires accurate labeling of ingredients. This label lists calcium carrageenin and

cellulose gum, which is what we call CMC for better consumer appeal.

Toothpaste used to be thickened almost entirely with CMC, but now it often uses many hydrocolloids. Many toothpastes are gels and use guar or xanthin gum instead of CMC altogether.

This label on this Slimfast drink has listed gum arabic, cellulose gum, carrageenin and cellulose gel, which is not CMC. It's a microfine cellulose. This Atkins chocolate ice cream has cellulose gum, cellulose gel, carrabean gum and carrageenin listed.

Since 1995, the price of xanthin gum, which is derived from corn syrup, has fallen 50 percent in price. Xanthin is now more frequently used in salad dressings, ice cream, frozen foods, beverages and marinades.

Guar gum is often blended with CMC where CMC was once used alone. When the price is guar is attractive, it can have an immediate impact on CMC consumption. In some formulas it is now routinely used, CMC/guar blends, because of the viscosity synergy of these two hydrocolloids.

It has been found that guar can outperform CMC when making tortillas, a traditionally very large application for CMC. Carrageenin and alginates,

seaweed derivatives, are widely used in beverages. Cornstarch is an alternative to CMC when only viscosity is required.

Another example of interchangeability is these three brands of bagels, which all from here look the same. One is made using CMC, one with guar and one with xanthin. Another example are these two cocoa mixes. One uses CMC, and one uses carrageenin for the mouth feel and foam stability.

In the oil field industry, there is no industry standard for CMC. The American Petroleum Institute is attempting to set an industry agreed upon definition and performance criteria. Today we have customers who formerly would buy a purified CMC, but instead now blend technical quality CMC with starch, and the product is accepted in the marketplace.

Today, much of the drilling activity is land based in shallow holes so sophisticated mud systems are not required as in offshore drilling. Cheaper formulations are always being derived for this highly competitive end market.

As a formulator, I understand the task at hand to provide the product performance needed, but I can use whatever it takes. The marketing department does not care what the recipe is. They only care

about what the consumer wants.

Thank you.

MR. PIOTTI: Good morning. My name is Corrado Piotti, and I am Commercial Director of Amtex, the only producer of CMC in Mexico. Thank you for giving me the opportunity to speak today.

Our company was quite surprised to be named as a Respondent in this case for a number of reasons. Frankly, we want to look at the many mistakes in the petition, particularly with regard to Mexico. It appears that Mexico was just added at the last minute before the petition was filed.

It is clear from the petition that Mexico is not the real target of this case. The Commission should not include Mexico in this case when its situation is totally different from that of other countries. Our company feels that it is being caught between the giants of industry and has been added as a Respondent when it is simply reacting to the movements of larger players.

I want to discuss several points today. The main points that I want to make today are as follows: One, the petition is wrong when it says that U.S. imports from Mexico of purified CMC are rising. In fact, they have been declining.

Two, Amtex overwhelmingly serves markets in the U.S. where Aqualon does not compete. For the vast majority of our sales, we sell exclusively in niche markets and have no adverse effect on Aqualon.

The concern expressed in the petition that Quimica exposes a threat to the U.S. industry because of capacity being added in Mexico is totally inaccurate. It is true that we are modernizing our production process in Mexico and there will be some modest addition to capacity, but that change in the production process will not be completed until sometime in 2006.

Furthermore, the capacity that is being added simply will replace the imports that we have been forced to make from our sister facilities in Colombia and Argentina and allow for some market growth in the coming years. We currently are at 100 percent of capacity in Mexico.

Four, the price pressure that our company felt in the U.S. markets from Aqualon is made even worse by Aqualon highly aggressively entering into the Mexican markets. While our exports to the U.S. have decreased from 2001 to 2003, the exports of Aqualon to Mexico have increased significantly.

Thus, we are very surprised that we have

been added as a Respondent in this case when Aqualon has been aggressive in driving down prices in Mexico and elsewhere to gain market share.

Let me start with the actual export of the subject merchandise from our company and who they compete with in the U.S. market. First, as you will see from our questionnaire response, the guess that Aqualon has made regarding exports from Mexico are simply wrong. In fact, our export volumes of purified CMC have declined slightly from 2001 to 2003 and were flat from the first quarter of 2003 to the first quarter of 2004.

The far more important story is the import niches of the product we sell to the U.S. In most instances, our products simply do not compete with Aqualon. On a broader level, we sell almost nothing to the oil drilling or the paper sector in the U.S. This is in contrast to Aqualon and to some of the other exporters appearing before you today. We know that the drilling sector is very important to Aqualon, and we are not a competitor at all in this sector in the U.S.

On a customer specific level, it also is true that our main customers accounting for the overwhelming amount of our exports to the U.S. are not

customers who would purchase from Aqualon.

I want to discuss the situation regarding our two largest customers. Those customers accounted for 81 percent of our U.S. sales in 2001, 79 percent in 2002 and almost 84 percent in 2004. These two customers represent the overwhelming amount of our sales in the first quarter of 2004.

The largest customer of our company from the very beginning of our export to the U.S. has been Azteca, which is a producer of tortillas. We developed a product especially for Azteca's Mexican affiliate and have worked with that customer for many years. We began to sell in the United States in the early 1980s to Azteca because we had been a reliable supplier for many years to its sister company in Mexico.

In the early 1990s, Aqualon took a substantial amount of Azteca's purchases away from us at lower prices. However, Azteca experienced a severe quality problem with the Aqualon product. Since the time of those problems, Aqualon has been banned from selling to Azteca.

As you will see in our brief, the overwhelming volume and value of our sales in 2001 were to Azteca, which group is the largest CMC

consumer in the world. Recently, we have lost some sales of this customer to another foreign producer, but this is purely an import market since Azteca has been very clear that it will not purchase from Aqualon due to the quality problems that it experienced.

Our second largest customer over the period of investigation has been S&G Resources. S&G is a former distributor of Noviant, which became a distributor of Amtex about 10 years ago when Noviant became its own distributor of products in the U.S.

This customer is also an importer, and there is no perception that it would purchase from Aqualon. In our view, if for some reason S&G could not purchase from Amtex it would turn to Asia or to some other foreign player.

Not only is the Petitioner wrong regarding the participation of Amtex in the U.S. market, but it is also very wrong about Mexico having excess capacity for CMC. In fact, just the opposite is the case. For the past several years, Amtex has been operating at full capacity in Mexico and has been forced to import purified CMC from our sister companies in Colombia and Argentina.

We now are in the process of installing more modern technology for our purified CMC production.

That technology will enable us to close the technological gap with our competitors and become more profitable. When that happens, the current technical CMC line will be scrapped, and the current purified CMC will be converted to technical CMC.

I have said that Aqualon may complain that the current purified CMC line, which we have said will be used for technical CMC, can be turned back easily into producing purified CMC, but this is not the case. This conversion cannot be done because the washing process in our CMC line creates a bottleneck that would not allow us to produce the general capacity that we have shown the Commission in our questionnaire response.

Finally, the Colombia and Argentina product, which now is being sent to Mexico, will be sold to Bolivia and to other countries in Southeast Asia and South Africa, not to the U.S. In Southeast Asia, Amtex Colombia and its local distributors have made recent investments in commercial establishments in places such as Jakarta and Indonesia.

The net effect of the new capacity in Mexico simply will be to allow us to sell to our current customers more efficiently. I recognize that the story that the petition tells regarding capacity in

Mexico is far different. However, if the Commission staff wishes to verify the credibility of what I am saying here today I invite them to visit our plant in Mexico and see for themselves.

In the case of Aqualon, the aggressive pricing has affected us not all in the United States, but in Mexico. U.S. export statistics show that in the January to April 2004 period exports from the U.S. to Mexico grew by 68 percent from the same period in 2003. This is a continuation of a factor where Aqualon has aggressively targeted the Mexican market with its exports more than doubling from 2001 to 2003.

This aggressive behavior by Aqualon in Mexico is what we believe has doomed the price and yet one more example of how Aqualon is leading prices down in a price war. Our company is very much a victim of this price war, not the cause.

We think that it is very strange that we are named as a Respondent here when we have been only a small and steady supplier to niche import markets.

Thank you for your attention, and we'll be glad to answer any questions that you may have.

MR. MALASHEVICH: I am Bruce Malashevich with Economic Consulting Services. This is a rather unusual case to come before the Commission at all, I

believe. The volume-related indicators of the domestic industry are moving upward. The case is really all about the alleged impact of subject imports on domestic prices and the attendant effect on the domestic industry's overall condition. The Petition concedes as much. So let's talk about price.

On the subject of price behavior, there are indications of recent price declines. However, these declines do not correlate with increases in the volume or market share of subject imports. If the market for CMC is commoditized as the Petition suggests, these basic facts belie the Petition's claim of a link between subject imports and any evidence of price suppression or price depression.

Rather, I believe you'll find the declines in purified CMC prices were driven very largely, if not exclusively, by contemporaneous declines in price of the numerous substitutes for purified CMC. Although my remarks are necessarily restricted in this public forum, there are a number of additional points on which the Commission and staff should focus their attention in this case. The balance of my testimony summarizes these. We'll address them in greater detail in the post-conference brief.

The Commission will have great difficulty

finding adverse volume effects attributable to subject imports in this case for the reasons I just described. As I noted earlier in my testimony, even the Petition shows that the U.S. market share of subject imports has declined, and questionnaire data submitted confirmed the decline in market share. The record is very complete in this regard, as the Commission's questionnaires appear to have covered the universe of domestic production and universe of subject imports, at least as revealed in the foreign producers questionnaires.

I can't think of a case where the Commission has found adverse volume effects when the volume and market share of the domestic industry have lately advanced as they have in this case.

As for adverse price effects, there are several conditions of competition in the CMC marketplace which have guided my analysis and I hope will guide the Commission and staff in theirs. You've heard the industry witnesses earlier today, that CMC is not an isolated product in a distinctly defined marketplace. Rather, it is one of a family of at least 25 -- I emphasize at least 25 -- products that substitute for each other in many applications that call for a thickening agent. Please refer to Exhibit

1 before you, which has this list.

This family, you'll note, includes higher qualities of crude, or technical CMC and fluidized CMC. Evidence shows that prices for CMC and its substitutes generally have been trending downward for nearly ten years. Such price erosion as occurred during the POI is simply a continuation of this trend, as competition from substitute materials intensified.

The intensified competition often took place through the activities of so-called blenders. Blenders act as market intermediaries, buying from CMC producers and selling blended products to end users. They have formulas, often proprietary, which dictate how CMC and its substitutes will be combined to minimize the blended price, based on their relative prices, as well as function.

We estimate that blenders account for 40 to 50 percent of commerce in food applications. And intermediaries play a similar role in oil drilling muds. In part, through the operation of these intermediaries, any significant increase in CMC's price relative to its substitutes, would almost immediately reduce their demand for CMC. For these reasons, I estimate that the price elasticity of demand for CMC is so high, that imposition of

antidumping duties would crush, rather than assist, the domestic industry by sharply reducing aggregate demand through the effect of substitutions.

It is through accommodating price declines in substitute materials over the years that the domestic industry has continued to exist at all in the United States. We have obtained time series data for most of CMC's principal substitutes during the course of the POI, which we will submit in our post-conference brief because it is BPI information.

With very few exceptions, prices for these substitutes declined over time almost perfectly coincident with the declines in purified CMC prices that have been reported.

The Commission and staff also should look closely at how the domestic industry's condition was shaped by changes in demand for CMC in its individual major applications, which are food, personal care and pharmaceuticals, paper and oil drilling muds. Demand in these applications move in disparate directions. For example, food demand is affected, among other factors, by dieting fads, like the Atkins Diet, which I attempt, unsuccessfully, to adhere to. Oil field demand varies wildly with changes in U.S. rig count, as you heard from my colleague, Mr. Klett, earlier.

And I give you -- I call your attention to Exhibit 2, which uses the same source as Mr. Klett referred to, but has the data laid out. And you can see the belly, as it were, dropping down in the year 2002. Demand for paper products has its own cyclical patter.

As the CMC products serving these applications can vary considerably, changing demand patterns could affect the domestic industry's average unit and sales price considerably. In its 10-Q for the period ending March 31st of this year, Aqualon's parent, Hercules, stated as much with respect to Aqualon's financial performance. And I quote: "Aqualon experienced 12 percent net sales growth, driven by 11 percent higher volumes and a seven percent benefit from higher rates of exchange, partially offset by negative product mix of six percent. Pricing on average across all product lines was flat. The negative product mix reflects higher sales of lower priced products, regional and industry mix, and is partly related to the additional contribution made by our Quantum acquisition." I might add parenthetically that Quantum is the Chinese producer of CMC which Aqualon acquired in December of 2003. This suggests that any anti-dumping order on subject imports might not benefit U.S. production.

The Commission and staff also should examine very carefully the degree to which certain of the subject imports in fact compete with the domestic product. There will be information in the record indicating that certain subject imports serve applications not served well or at all by the domestic industry. Similarly, there are applications historically and recently served by Aqualon's product which appear to be uniquely suited to the processing operations at particular customers, small and large. Aqualon's position at these customers will not be displaced simply by a lower price from an import supplier.

Finally, I note -- judging from language in Hercules' 10-Ks, Annual Reports and most recent 10-Q, that Aqualon operates internationally. The impact of any U.S. exports that might have occurred on the domestic industry's condition thus should warrant your close attention.

I respectfully suggest the Commission and staff will benefit greatly by examining the facts of this case through the lens of the conditions of competition which I just described. Ultimately, the Commission and staff will have to evaluate the effect of any apparent price declines on the domestic

industry's overall condition. I believe any such effects are small and limited to an extremely narrow window of time.

In this public forum, my remarks on this topic are necessarily limited. But we'll draw from public documents prepared by Petitioner and its parent, Hercules. The Public Petition, at page 19, notes that between 2001 and 2002 a decline estimated at eight percent in apparent consumption was caused by the recession, and particularly in the oil drilling operations. I call your attention again to Exhibit 2.

The flip side of this point is that consumption has strongly rebounded since that time, led, likewise, by recovery in the oil drilling segment. I will be preparing a detailed analysis of how these and other developments shape the domestic industry's overall condition over the POI.

I reviewed Hercules' 10-K reports filed with the SEC covering the full years of the POI, and the company's 10-Q for the first quarter of this year. Hercules' fiscal year is a calendar year, so these reports relate management's analysis of Aqualon business unit's fortunes for a period that coincides precisely with the POI in this case. Nowhere did I find mention of the impact of imports on Aqualon's CMC

business. Instead, I found the following description of very favorable results.

In their most recent 10-Q, management stated, "market conditions affecting Aqualon remain healthy. Volume growth was fueled by strength in the personal care, paint, oil field and synthetic tubes market. Volumes and revenues also benefit from the Jiangmen, China CMC acquisition which the company completed in December, 2003."

In their Annual Report for 2003, management stated as follows: "Market conditions affecting the Aqualon business were generally stable in 2003. Volume growth was fueled by an increase in construction, oil field and personal care businesses. Global price increases implemented in the first half of 2003 partially offset higher raw materials and energy costs. Further price increases have been announced to offset new raw material increases. Volume growth in Aqualon was a result of stronger demand from the oil and gas drilling and recovery markets."

In its Annual Report for 2002, management had the following to say: "Volume declines are reflective of weak sales in the oil field industry. Lower raw material costs and lower overhead costs

attributable to the cost reduction of work process redesign program, were the primary drivers of improved operating performance. The water soluble industry is mature, growing at rates near or slightly higher than GDP. Mergers in the industry and the withdrawal of marginal producers have improved profitability."

I recognize that Aqualon's overall operations are involved in making products in addition to CMC. Yet if the CMC operation is important enough to justify the filing of this case, its alleged harm on account of subject imports presumably deserved at least some mention.

Other witnesses here today addressed the allegations of threatened material injury. I simply would like to emphasize that the claims current material injury attributable to subject imports cannot be sustained by the facts at hand.

Thank you.

MR. CLARK: That concludes our direct testimony.

MR. CARPENTER: Thank you very much. And thank you, gentlemen, for your testimony and Mr. Malashevich, we'll attach your exhibits to the transcript of the conference.

We'll begin the questioning with Ms.

Trainor.

MS. TRAINOR: My name is Cynthia Trainor. I'm with the Office of Investigations. Thank you very much for your excellent testimony. I'd like to begin the questioning with Mr. Bodicoat, but this is to all respondents. And I'd like to explore the area of technical support and customer service, if I may. I don't know if you'll be able to respond in a public forum, but if not, would you please follow up in your post-conference brief?

Could you give us specific examples of what your customer service would entail to the best of your knowledge in the food and personal care and cosmetics sector of the industry, of the paper and paper making parts of the industry, and in the oil well drilling portions of the industry?

MR. BODICOAT: I would say in general terms -- particularly in the paper industry -- we talked a lot about the food industry today, and so I think we need to talk about some of the other industries, because it's not -- they're not the same.

In general, we work to develop products with our customers, and the paper mill is essentially either trying to make a better quality paper, or to get runability and throughput. And that's how we

define the value that we add. If they make better paper, they sell more paper into the marketplace. If their machine runs better, they can avoid capital investment to expand capacity in paper or reduce their asset costs.

So that's how we work with them. So we put people in the mills, working with our customers on a day to day basis, closely to do whatever that is, either to make a better product, to make a better runability in the mill itself. So that's how we work.

And then, little things like printing Portuguese on a bag, because that's -- you're delivering these bags into factories, you know, all around the world, with fairly low-cost manual labor. So to put -- to do specific language labels, all of this is part of the customer service that we provide.

MS. TRAINOR: Thank you. If you could elaborate a little more in the post-hearing -- post-conference brief, I would appreciate that. I have no more questions at this time.

MR. REID: Can I just talk to that a little bit?

MS. TRAINOR: All right.

MR. REID: In the case of Akzo Nobel, our technical service -- typically we deal with a lot of

small companies, and many times they don't have their own chemists on staff, or they have very limited resources. So in order to enhance them to buy our product, we offer to do the work for them. Typically we look for a situation where they're having a problem, and that's the easiest opportunity to try to sell them, if we're able to solve the problem using one of our products.

But we're -- as you see by our numbers -- a much smaller player in the market, so we tend to focus on the smaller companies that appreciate having the technical service that they require.

MS. TRAINOR: Mr. Piotti?

MR. PIOTTI: Oh, yes, we have technical service. And we spend a lot of time basically for tortilla, because that's our natural market and also for toothpaste. We have a pilot plant in Argentina, and in this, too, sector we spend a lot of time.

MS. TRAINOR: Again, if that could be expanded just a little bit in your post-conference briefs I would appreciate that.

MR. BODICOAT: Could I just extend, say, another example as well?

MS. TRAINOR: Yes, for you beyond the paper industry.

MR. BODICOAT: So, particularly in personal care -- the toothpaste --

MS. TRAINOR: Yeah, and the oil, right.

MR. BODICOAT: We work with them. A test for toothpaste is you squeeze the toothpaste along the bench, the lab bench, and you have a look to see how it stands up, and its stringiness. You want a nice uniform flow of toothpaste that doesn't collapse, doesn't come in and out. And we've got particular products there, we've specifically developed with some key international customers that don't exist in the marketplace and in fact are very, very difficult to formulate out.

So we work with people typically on a nine-month to one-year time scale. And certainly, we talked a little bit about how quickly can people switch out. There's a very big switching risk. And going back to the paper example, there was a question this morning about the value -- how much time and effort does it take because your paper mill stops running because you get a break. And that's a lot of money.

MS. TRAINOR: I think that will be sufficient, gentlemen. I thank you very much for your response. That's the only question I have right now.

MR. CARPENTER: Mr. Reynolds?

MR. REYNOLDS: Again, thanks very much for your presentation. It's very helpful and it's been very informative, so we really appreciate it.

A series of questions. I guess my first question is for the lawyers in the group, Mr. Gorelick, Mr. Clark and Mr. Neeley. I've heard a lot about substitutability of other products, specialization within the product. For purposes of the preliminary investigation, are you going to be taking the position that we should not accept the Petitioner's proposed like product or should we accept it?

MR. GORELICK: For purposes of the prelim, we accept their definition of like product, I believe. Our argument, in fact, is that there's not only competition within the like product, but more important, there are all these substitutes, and there is precedent, which we'll brief, on the Commission rejecting -- at a preliminary stage -- cases where the competition came from substitutes that are not like products at all. Is that a fair --

MR. CLARK: That's correct. Our position is we've looked at -- we've not raised issues of like product specifically, even with respect to the

technical grade product. Instead, we're viewing these as conditions of competition and what's critical for the Commission's analysis, even in the case of the technical grade, this is the competitive environment that the purified product is in.

MR. NEELEY: And we're in agreement with that as well.

MR. REYNOLDS: And again, you can understand, all of us agree that you might have a like product but obviously some level of competition impacts price for causation purposes from other products. So thanks.

So I take you don't have a problem with excluding crude from the definition at this point? And FTF and the cross-linked CMC?

MR. CLARK: No, no problems.

MR. GORELICK: We accept the like product definition. We're all puzzled by the 90 percent since we all produce -- all of our clients produce 97 and above, and we just heard Aqualon say they only produce 98 and above. Pardon our suspicion that maybe they want to import from someone who produces below 98 but above 90. Guess from where?

MR. CLARK: And one other point just to raise, there was a discussion earlier today about the

clarification that was requested by the Department of Commerce. As we read the clarification -- the request and the response -- that is not changing the scope of the Petition. It is simply trying to provide a benchmark to define technical grade product. But as you heard Dr. Bodicoat's testimony, that in fact is not the proper break point.

MR. REYNOLDS: Okay. Another legal issues for my colleagues in the bar, I guess. Do you -- do all of you -- I've heard something from Mr. Piotti that suggests that there is a lack of competition from Mexican imports. Are any of you going to make an argument that one or more countries should not be cumulated with the other subject countries? And I guess you can decide who goes first. Maybe Mr. Neeley.

MR. NEELEY: Well, I think that is our argument. I mean, that is what Mr. Piotti spent about half of his time talking about, is that one, we should not be cumulated for the reasons we said -- primarily because we don't compete with the U.S. industry, with Aqualon with regard to these products, and therefore don't meet the statutory criteria for cumulation. And, of course, he also talked about the threat situation. So in the case of Mexico, at least, we

feel very strongly that one, we shouldn't be cumulated, and two, that we're not injurious.

MR. CLARK: And we agree with Amtex that Mexico should not be cumulated. We will also be making a similar point with respect to Finland, in particular. The testimony you heard earlier today talked, in Dr. Bodicoat's testimony you may have heard, that the Noviant facilities have a particular orientation in their production and the customers they serve. Without going into the confidential record, you will also see that orientation reflected in the questionnaire responses.

You had testimony also, for example, from Akzo earlier that they don't sell into the paper segment. So when you look at the key cumulation question, where subject merchandise from different countries compete with one another and overlap in the market, the record will show -- and we'll be elaborating on this in the brief -- multiple instances where you have very discrete lines of competition and that will be your break point for cumulation.

MR. GORELICK: And we agree there's no competition, certainly, between us and we think others and Mexico, or with Finland. We don't compete with Finland. We don't sell in the paper market.

MR. REYNOLDS: So we've got Finland and Mexico, arguments being made that they're not to be cumulated. Let me just run through that with you guys and get some testimony from the witnesses.

Is this a nationwide market or are there geographic regions within the market that you sell into? For example, I assume -- I understand that for Finland and Mexico you're talking about different customers and different types of products, for the time being. But generally, would you consider the U.S. market to be sort of a nationwide market as opposed to regional markets?

MR. BODICOAT: Yes, CMC is actually a global industry, and a little bit, then, depends on the type of customers you're trying to serve. So for oil, for instance, the gravity for that industry is actually Houston. But for paper, the gravity is Finland, the U.S. and very much increasingly, China. For food, it's everywhere, because it's a very fragmented industry and there are factories producing food products that buy CMC. So it a little bit depends on which type of industry you're talking about.

MR. REYNOLDS: For purposes of what we're doing here, we're focused on the U.S. market primarily. Would you say that the U.S. -- I mean,

obviously, you said oil is focused on Houston. Would you say that the CMC market, the other segments of the market are focused on particular regions, say wood in the Northwest region, or paper?

MR. GORELICK: Paper is made in -- I won't bore some of your veterans of softwood lumber. But it's actually made a lot in the South as well as in the Northwest. In fact, we think the markets are national.

MR. REYNOLDS: Okay.

MR. GORELICK: Bear in mind, if you're selling in Houston to the oil field, that's the center of gravity. The stuff may be used in Alaska or California.

MR. REYNOLDS: Okay.

MR. GORELICK: So we view this as a national market.

MR. REYNOLDS: Channels of distribution. Finland and Mexico selling to different channels of distribution than, say, the rest of the CMC suppliers? Channels of distribution for purposes of the Commission's thinking is do you sell to end users as opposed to distributors? To both the distributors and end users?

MR. NEELEY: I'll start, because we only

have the two customers, essentially, that Mr. Piotti talked about. The one, Azteka, which Aqualon does not compete for, is an end user, obviously, a tortilla manufacturer. S&G on the other hand, is in a different channel of distribution and one that Aqualon cannot sell into. It's a distributor.

MR. PIOTTI: In the first quarter of 2004 we have six customers in Mexico. Azteka, S&G which is a distributor. We have sold also scientific polymers, the same order of distributor in Atwanda (phonetic). Peter Thomas, he buys CMC and sells to Tic Gums. This is all.

MR. REYNOLDS: Thank you, Mr. Piotti.

MR. BODICOAT: We do -- the short answer is both, and a lot depends on -- I mean, you never know when a customer is going to move the production of one product across geographies anyway. So, I mean, it changes all the time. But essentially we use both distributors and end users.

MR. REYNOLDS: And then fungibility, I guess, is the last one. I think I hear Finland saying that you sell a very limited set of product groups into the U.S. Is my understanding correct about your argument?

MR. CLARK: That's correct, into a very

narrow band of applications.

MR. REYNOLDS: Right. And I assume that you'll be expanding upon that at great length in your brief. Can you just give us some idea now what -- if you can without divulging BPI. I mean, is it --

MR. BODICOAT: There was a comment made earlier this morning as well that putting CMC products from, say, oil or paper into the food industry, you have to have for the food CMC supply, what's called GMP, which is good manufacturing practice. So, for instance, we could not use our Finnish products in the food industry. They have to come from a GMP factory, which is the Dutch facility.

The second one is depending on some highly specific range of viscosities, which are difficult to make. Again, Finland has a special technique in those terms, which many of those products are not made.

MR. REYNOLDS: Now, are they products that are not made by domestic -- the domestic producer, or subject -- are they patented?

MR. BODICOAT: No. I mean, as we've also discussed today, CMC is quite an old product.

MR. REYNOLDS: Right.

MR. BODICOAT: But what we do is, it's about know-how. So we know how to make these particular

viscosity grades that is not well known in the industry. And that's seen as -- particularly for us -- a piece of a competitive advantage.

MR. REYNOLDS: Okay, and on the interchangeability, the next -- oh, sorry.

MR. REID: I was going to say we only have one factory, so we have to produce all the products there, but we also have GMPs to do. We have to follow special procedures when we're making a food grade; it's a higher purity. So when we produce for the oil field, even though it's produced in the same factory, we have to do some changes before we can make the food grade, so everything is coming from one factory.

Our channels of distribution are typically more through distribution than direct customers, but we do ship directly to some customers, primarily specialty grades that other companies are not able to make.

For instance, we are supplying TIC Gums, who you heard this morning. We sell them very small quantities of a product that Aqualon cannot make. And it's a very specialized product.

MR. NEELEY: And I think you heard from Mr. Piotti, with regard to the Mexican product, that we don't sell at all into the oil and the -- or virtually

none into the oil and the paper segments of the U.S. market.

MR. REYNOLDS: Are there products that Mr. Piotti is selling to Azteka, for example, and is it P&G?

MR. NEELEY: S&G.

MR. REYNOLDS: S&G. Are those products that aren't produced by Aqualon or are they produced by Aqualon? Presumably, you said that Aqualon had supplied them for a little while.

MR. NEELEY: I'll let him expand on it. I think in the case of Azteka in particular, the product that had been supplied by Aqualon was a product that didn't work very well. That's why they got kicked out of that customer. So, I mean, it was technically a little bit different. Could they have supplied what we do? Well, possibly, but they didn't. But let me have him address that further.

MR. PIOTTI: Yeah, in reference to Azteka, we started to work with Masecca (phonetic) in Mexico in 1977, 1978. We have a factory to produce tortilla in the plant. We work together for six or seven years, and we found a product that worked very well in the tortilla.

This is true, because this year we lost 50

percent of the consumption in Azteka, basically for price. Azteka produced two types -- well, produced 20 types of flour. We stay 100 percent in the superior flours. For the normal flours we lost the market because they can use the normal CMC, but in the other application, no. They have a very, very good result with our CMC.

MR. REYNOLDS: And that type of CMC, the superior, is it that it's more pure, or does it give the tortilla a different quality?

MR. PIOTTI: No, no, it's not more pure. We found a special chemistry to obtain with this product two things, basically. Water retention and the processed tortillas.

MR. REYNOLDS: It helps the tortilla remain a little moist, then?

MR. PIOTTI: Yes. In Mexico, for example, Azteka doesn't buy us this special product. Buy us a normal product.

MR. REYNOLDS: Now, on the distributor, the S&G, you presumably sell -- or do you sell a broad range of types of --

MR. PIOTTI: S&G is a different customer. We don't know -- I know one or two customers, but we don't know the other customers. They buy many types

of CMC with small quantity, and they resell in different sectors.

MR. REYNOLDS: Okay. Let me follow up -- since I started on interchangeability, let me follow up on something that Mr. Bodicoat and I think you've indicated or suggested, Mr. Piotti, is that there is -- as the Petitioner's witnesses suggested this morning, some level of specialization or some level of differentiation for products here. And Mr. Bodicoat, I think you emphasized that it's all specialized.

And I guess my question is, do you disagree with the statements made by, Mr. Herak, I believe it was, that there are a standard, say, 20 to 25 -- 15 products in the market that many customers use, or a fairly substantial portion of customers use, and most of the suppliers, both the subject suppliers and the domestic supplier can supply in the market at reasonable quality levels. Do you agree with his comments or disagree?

MR. BODICOAT: Let me try and go through -- it depends on your level of abstraction. At one level, we all make the same product, called carboxymethylcellulose. But then, as soon as you start to drill down, you say now, what's the degree of substitution? What's the molecular weight? What

viscosity have you got? Which bags is it going into? Which pallets are you putting it on? What's the functionality of the product in the end product? And when you start to do that, we sell 1,300 of those types of things. That's what we do.

MR. REYNOLDS: So 1,300 separate grades?

MR. BODICOAT: Yeah, 1,300 separate products. Putting in an enterprise resource planning system makes this incredibly transparent for you, in terms of, you know, you need highly specific coding, and yeah, we have 1,300 products.

MR. REYNOLDS: So all of the products you sell -- and I know you say you sell limited here -- maybe you can focus on that, but also just generally -- every one of them would be a customer-developed, customer-specific product, as opposed to, say, well, this obviously has a degree of substitutability, a certain coarseness or molecular weight, et cetera, down the line. And maybe some products come off the shelf, are ready-made.

MR. BODICOAT: Some products do come off the shelf, but it's what they do in our customer's product that's the important thing. So we can sell one particular product for paper and one particular product for textile, but they will have different

prices --

MR. REYNOLDS: Right.

MR. BODICOAT: -- depending on what it's delivering in the textile or in the paper.

MR. REYNOLDS: How much -- again, I realize Finland is a small grouping, presumably. Are all those products you're selling in the U.S. customer-specific, customer-developed, highly -- relatively highly engineered products, as opposed to standard?

MR. McKENZIE: This is Ken McKenzie, for the record.

MR. REYNOLDS: Thank you.

MR. McKENZIE: Let me try to put it in a little more clarity, if I can. If we look at the Finland -- or all the products across the Noviant range, each one is customer-specific and each one has a particular recipe code, because we have a lot of different -- raw cellular sources that we would utilize for very different functionalities, and we have different reaction conditions to create different types of substitution patterns and different levels of absolute substitution.

Now, Mr. Harek's analogy also of the pearl necklace, I use a train and carriages, and how we put the people in the carriages, whether in first class,

second class or third class also creates a certain degree of functionality. And it's the understanding of the customer, the market application, and it brings us back to create certain recipes. So on the surface it may seem that, you know, these two products are apparently the same, but they may not be apparently the same, because they will have different functionalities depending on the end industry.

MR. REYNOLDS: And when you say apparently the same, do you mean -- I mean, obviously we're just a bunch of lay people up here, so everything looks like a white powder to us. When you say apparently, do you mean to the customer it would appear to be the same even though you get slightly different variations in terms of efficiencies and costs?

MR. McKENZIE: Yeah, it may have a 2,000 center points viscosity at one percent, and we have a degree of substitution average of .8.

MR. REYNOLDS: Right.

MR. McKENZIE: And they may both have that, but they have radically different functionalities, depending on the specific industry and also the specific way we have created those viscosity and degree of substitution parameters.

MR. REYNOLDS: Okay.

Mr. Reid, do you have a perception of how important standard grades in the CMC market are, compared to, say, specialized, customer-specific developed grades?

MR. REID: Yeah, we have what we call workhorses. I mean, there are some products that are very versatile, that are considered standard. They can give most of the properties most of the time. So that's what we would consider standard. They tend to be your higher volume products that you produce. But you get into a lot of cases where it's not performing exactly the way the customer wants, so then you have to tailor make the recipe for them.

We do consider particle size adjustments as a speciality product, because the plant would like to make one product all day long, but that's not always possible for everyone. We sometimes have to adjust the degree of substitution to a very narrow range. But it's not just the degree of substitution. To go back to this analogy someone used of the necklace with the pendants. It's not just how many pendants you put on there, but the proximity of the pendants to each other, and the spacing between them.

So all these little tweaks that you can make in your reaction process can yield a product with

completely different properties, or some variation. So it is very important, sometimes, to work with a customer to fine tune what we -- say we would start with a standard recipe, and then custom make it for the customer, give it a separate name. Typically that product can only be sold to that one customer.

MR. REYNOLDS: So do you have a sense -- and again, these are just ballparks, don't feel like we're going to really hold you to them -- but a sense of how much, how important, or what percentage of the market, say, the standard --

MR. REID: We'll do that in the brief.

MR. REYNOLDS: That sounds good, yeah. But for the time -- I mean, do you think it's -- I hate to do this to you, Mr. Gorelick -- do you think it's 50 percent? Forty percent?

MR. GORELICK: Well, I have to say a lot of the specialties we make are being excluded from these conversations because of the product descriptions.

MR. REYNOLDS: Right, got you. Okay.

And then, Mr. Piotti, if you have a comment?

MR. PIOTTI: Yes, I want to clarify something. In the United States we are exporting ten types of CMC. And except Azteka, all are standard type of CMC. On the other hand, in Mexico, we have

more than 150 specifications, and the consumption in Mexico is so different. For example, the user in the United States uses 300 tons of CMC per year. And Mexico uses 30 tons of CMC per year. And we need to produce four types of CMC. The same as Kraft, the same as General Foods, the same as Nabisco.

So in Mexico the cost of the production is too high, because we need to blend. And the specification basically is different not in the real substitution or basically in viscosity, in the particular size. So we need to prepare many times three tons of CMC and we sell the three tons of CMC in five months or six months. The economy is too different.

MR. REYNOLDS: Thank you.

MR. REID: May I make one more comment?

MR. REYNOLDS: Sure.

MR. REID: Even within a standard product, if you look at the specifications, the viscosity range is quite wide. Most of our customers are looking for reproducibility in their processes. They don't want to have to be making adjustments. They want to add all the ingredients in and everything to come out fine at the end. So one of their specifications, typically, on their final product is their viscosity,

and the reology of the product. So it's very strongly affected by our additives, even though they're going in at small amounts. So they often ask us to really narrow the range when they define exactly what product, plus and minus, whatever their tolerance is in their process. Then they give this as a specification to us and ask us, can you do this?

Because of the way our production is set, we can run small runs and more customized products, and we're able to do this. And sometimes we're able to get business from competition because they don't have this flexibility. So that maybe is not such a special product, but it's a combination of service and product.

MR. REYNOLDS: All right, thank you. That was all very helpful. And again --

MR. McKENZIE: May I add one comment?

MR. REYNOLDS: Absolutely.

MR. McKENZIE: A clarification. In the case I mentioned earlier, we could attain the same two hypothetical products that appeared similar on the basic specification, and switch the customers, they would know immediately that there's a difference in the product, because the functionalities don't match the application. So therefore, that's why we do so

much application testing and computerized formulations of the recipes and reaction conditions, to make it customer-specific.

MR. BODICOAT: Can I just add a bit more?

MR. REYNOLDS: Go ahead.

MR. BODICOAT: This is important, because it will come back when we start getting into a discussion about comparing the four products that are identified, because that's going to be a challenge.

MR. REYNOLDS: It really is important, I think, just so you're -- you can tell from our questions that all of this is extremely helpful and very important to us as we go on.

MR. BODICOAT: So these specifications, as Jim said, as well, basically you're defining a kind of football field, but the real viscosity is how close you are to the goal line. And that's the difference. So yeah, everybody's on the football field, but if you're just running around the middle you're not scoring anything, whereas if you go out on the goal line, you're getting what the customer wants.

MR. REYNOLDS: And again, you know, I think that -- all the lawyers in the room, you all are very good lawyers here. And I understand how important this is to this. We're trying to figure out what's

right, is it a fully commodity market or is it a highly specialized market. And the more you submit to us, the more facts you can give on both sides, it's helpful to us.

I want to follow up on this issue about -- you've emphasized specialization. But Mr. Malashevich is telling us that there are other products that are substitutable and have an impact on price. If the product itself, CMC, as you've emphasized, this panel has emphasized, is so specialized and so customer-specific, and so highly engineered and designed, how does that relate to having other products that are substitutable for it that affect price?

It seems to me I'm hearing on the one side that these are very specifically designed products, but obviously, you know, the other products -- do you see what I'm saying?

MR. MALASHEVICH: Let me start out with a broad response and invite the industry members to supplement that. But we discussed this at great length. And basically the various end users have their various thresholds of pain, let's say. And everything that's been discussed is in the context of relative prices as they exist today, in the marketplace.

What my remarks went to was a scenario where the price of CMC independently would be increased, be it by a dumping duty or some other market development, while the other products are staying the same. Depending upon the criticality of the product in the application, there may be people, such as blenders serving the food industry, who as I understand would switch to alternatives by a price increase as little as five percent for CMC. There may be others that have a blockbuster product that works for them with a particular formulation, and it might require a 10 or 15 percent price increase in CMC before it overwhelms their pain threshold, and they switch. So there's a -- I hate to use the word continuum -- let's say there's a gradation of applications that will switch CMC -- excuse me, out of CMC in the scenario that I talked about, at different price escalation points.

MR. REYNOLDS: So I guess what you're saying is that if you increased the price significantly enough for each of these individually-designed CMC products, you'll have a plan which guar gum or gelatin or carrageenan or karaya -- these are four of the products you've listed as substitutes, would be substituted for?

MR. MALASHEVICH: That's right.

MR. REYNOLDS: In every single use for CMC? Every case?

MR. MALASHEVICH: And also, another point is, my remarks were in the context of the behavior of domestic price levels. And the Petitioner has characterized its own activity as being of a commodity nature. So the story is different when you go to the different sources of import supply. My remarks went to the behavior of domestic prices.

MR. REYNOLDS: I got that. And let me ask the industry witnesses, in your view are there uses of CMC that you really couldn't use another product for?

MR. GORELICK: Purified?

MR. REYNOLDS: Purified CMC. Or are price changes that would cause you to change from CMC to another substitute extremely high? Would it cause -- would it take a 300 percent increase, or a 500 percent increase in the price of CMC so as a practical matter you're really not going to switch? Do you understand what I'm asking?

MR. REID: There are some properties you get in certain applications from CMC that you can only get from CMC. So maybe you have that in your formulation at half a percent. Maybe you only need .2 percent to get the property that you need, but you use more to

get the quality of the properties. If the price was to go up, then you may take a look at that and say well, I'm going to reduce the level to .2 and find something else to do the viscosity adjustment, the reology control, whatever other properties you're looking for.

So there are some formulations, and I've seen applications where they know they have to have a minimum amount of CMC in there, because nothing will give them the exact same property they're looking for.

And also, many companies have dual recipes. If they've already done their homework, they know how to adjust their formulations quickly to take advantage of -- because if they're using a combination of polymers, they can adjust the levels up and down to get the overall effect of the package.

MR. REYNOLDS: Anyone else?

MR. GORELICK: Just to -- I'm not the industry, I'm a lawyer, but just walking into CVS --

MR. REYNOLDS: But a very well respected lawyer.

MR. GORELICK: But just walking into CVS, I'm just telling you -- and you can see -- toothpaste used to be CMC, everyone says, and you see there are a bunch of different ones on the label. And bagels,

people don't buy -- just walk in and -- most people buy the bagel they liked before. They don't just buy bagels at random, and most foods, you find one you like. Here you have one bagel manufacturer with one non-subject, another with another non-subject, and one with CMC.

So what Bruce is talking about is not hypothetical. People have chosen to do other things. It's also in the oil fields, where they've gone to technical CMC and starch. So it's not that they might switch. People have already done that. And again, within that, even if they need a certain amount of CMC they can use less than they're using now and switch to other things.

The point of bringing all these toys, beyond making me really hungry about now -- the ice cream's empty -- is that it's actually happened in the marketplace. This is not something where you have to do it. We were really struck that they brought in their products. Ours had, you know, dual things on the label, or the same product with three different ones.

MR. McKENZIE: May I add two other potential examples? If we take the paper industry, CMC has very advantageous properties, the optical properties but

also the machine runability quality. They can also use starch, which is much, much cheaper to use, but doesn't offer the properties that CMC can. But if the price differential between the two became much narrower, then there would be more usage of CMC, and conversely, if the prices became much wider, there would be a tendency to go back to starch and accept a reduction in quality to save money.

In much the same way -- xanthan gum, which we have seen from Bruce's notes that the price has been declining. Xanthan has one very, very unique property. In the Aqualon presentation they were talking about reology. It's that products containing xanthan have instantaneous sheer recovery. So when you stop applying the force to the liquid, it instantly goes back to its original. And that's very important for striping in toothpaste, the stripe adherence and filling the tube.

Now, xanthan's expensive, and often they will compromise a little on the stripe quality because of the cost. If the cost differential becomes smaller, then they will go to xanthan.

MR. REYNOLDS: Great, thank you. I never compromise in my stripe quality, though, in my toothpaste.

I would suggest to Mr. Malashevich that when you go through this it would be helpful for us to look at these in your presentation in the brief if you separate out which one of the 25 products is applicable for food, and paper, because I'm pretty sure that some of these wouldn't be food products. And just to give us a better sense, rather than having a list of 25 that we don't know whether they apply to all food uses.

MR. MALASHEVICH: We're planning on doing that. It was only for purposes of illustration for today's hearing. I simply provided the list.

MR. REYNOLDS: I apologize to Mr. Benedick for stepping on his economic area there.

MR. BODICOAT: Can I just make one more point?

MR. REYNOLDS: Sure.

MR. BODICOAT: Adding on to Ken's as well, and building, with these examples. With CMC or any of these things, it's never just a drop in. So you can make a bagel with CMC or you can make a bagel with guar, but the other elements in that mix have to change to accommodate either the lack of what CMC's delivering, or the lack of what guar is delivering. So you always formulate on the food matrix. It's not

just in isolation. A food technologist will adjust the formulation. The same with coating colors in the paper industry. They can use starch, but they'll have to change something else in that process in order to accommodate it. It's not simple.

And then just to pick up on Bill's point as well, a lot depends on the points in the value chain in the industry that you're buying into which gives you the flexibility to change the formulation. The specific instance we looked at this morning was about blenders, so in a sense that's a forward integrated hydrocolloid producer. But if you're talking about a major international toothpaste producer that's got, you know, a brand icon out there, they don't change that very quickly.

MR. REYNOLDS: Thank you very much.

I just had maybe a couple of last questions for Mr. Malashevich. I was listening closely as you read the 10-Q description from Hercules' 10-Q. And it's ambiguous enough that I was wondering what your interpretation of a certain phrase is. Do you think negative product mix -- if you look at that quote, they mention something about negative product mix. Are you saying that that suggests that what they're talking about is the impact of other products on CMC

pricing in the market has impacted them, or does that mean something else?

MR. MALASHEVICH: In every other context, and we've all read a lot of 10-Ks in our experience, in a lot of investigations. Negative product mix suggests a change in the total amount -- a change in the mix of product toward lower priced, perhaps lower margin products, simply by virtue of what's happening in the individual segments of demand and at individual customers.

So the significance of that in my mind is that it's a phenomenon independent of subject imports that would tend to produce a lower average unit value. When the Commission goes to calculate, you know, the section of profit and loss, where the values are translated into an average unit value, so when you see a decline in the average unit value of net sales, if there is such a decline, a certain element of that decline was produced by a change in product mix, of just what happens to have been sold during the period.

MR. REYNOLDS: So your interpretation of that means other substitute products?

MR. MALASHEVICH: No, no, no. A change within.

MR. REYNOLDS: You have the low price

subject imports you're talking about?

MR. MALASHEVICH: No, no, no. Please don't misunderstand on that point. If the universe consists of 50 flavors of CMC that the industry witnesses talked about this morning, they would be at various prices. And a negative change in the product mix would be a greater share of the total volume at the lower end of their price continuum.

MR. REYNOLDS: Right, I got you. I see what you're saying.

MR. MALASHEVICH: Excuse me, there's another comment here.

MR. McKENZIE: In the Aqualon production site in Hopewell, they not only make the carboxymethylcellulose, as Mr. Herak said this morning, but hydroxypropyl, hydroxyethyl, hydroxypropalmethyl, and methylcellulose, all of which are different end markets and very different pricing mechanisms. Apart from the competition that they have described in the carboxymethylcellulose industry, they have been under severe competition also in the hydroxyethyl industry, and prices in those sectors have dropped dramatically in the last 12 months. So I think, you know, as Bruce said, it's a product mix internally compared to what they had sold in the

previous year. Different margins, now it's affected the whole balance of the Aqualon statement.

MR. REYNOLDS: All right. Sometimes it takes me a little while to catch up to people.

Just one last question for you, Mr. Malashevich. You told us you're going to submit a list of the pricing for the various substituted products and price --

MR. MALASHEVICH: Yes, I have it right here, but it's BPI because the supplier asked that it be submitted on a confidential basis.

MR. REYNOLDS: Is it internal data for this supplier that they've prepared?

MR. MALASHEVICH: Well --

MR. REYNOLDS: I'm trying to give -- be able to give the Petitioners some way of assessing whether they could look at the same, say, proprietary data without -- in a timely fashion so they could address it in their own post-conference brief.

MR. MALASHEVICH: Will you allow me a minute to confer?

MR. REYNOLDS: Sure.

Before you answer, I do want to point out that I'm not trying to pressure you to release information at all that is BPI and is confidential. I

just wanted to see if it was, say, a proprietary magazine, monthly publications that they could get access to comment on it. That would help us and help them.

MR. MALASHEVICH: I defer to counsel on this issue.

MR. REYNOLDS: Really, I'm not trying to pressure you at all to release it.

MR. CLARK: The information comes from an independent study, that is available on a commercial basis, but the acquisition of it is pursuant to a confidentiality agreement. It may be that the Petitioners already have this data. We have no way of knowing that, because if they have it, it would be confidential as well.

What we can do, because it is subject to a confidentiality agreement in acquisition, is make it available under protective order, if that would be a fair use.

MR. REYNOLDS: Yes.

MR. CLARK: So we're prepared to do that, and we could even make it -- provide it to counsel for Petitioner under protective order and try to do that this afternoon.

MR. REYNOLDS: That's up to Mr. Carpenter, I

think.

MR. CARPENTER: Yes, I think if you could serve it on the Petitioners this afternoon -- preferably this afternoon, or at least early tomorrow morning, so that they have time to look at it and comment on it in their brief. That would be preferable.

MR. CLARK: We will do that.

MR. REYNOLDS: And we very much appreciate your willingness and cooperation on that. Or at least I do. Thank you.

MR. CLARK: It's only the bounds of confidentiality that restrict us. Otherwise the information is out there.

MR. REYNOLDS: Thanks very much for everything.

MR. CARPENTER: Mr. Benedick?

MR. BENEDICK: Well, thank you very much for your testimony. It was very interesting. I almost feel like I've heard discussions from two different industries, one this morning and one this afternoon.

And with that in mind, let me direct a question to Mr. Clark, and please have anybody on the panel answer as they wish.

To what extent do the subject imports

compete with Aqualon if they produce these standard products and you produce the very individualized products. Where are you coming into competition with Aqualon?

MR. CLARK: Instead of a lawyer's speculation, I think it would be best to let the people in the commercial market respond. So I think Mr. McKenzie and Dr. Bodicoat can talk to areas of competition.

MR. BODICOAT: In a sense it's what we're talking about, and you said it yourself; it's how you view the world. And in one sense the viscosities can be the same. They can be. There's an Aqualon product which happens to be the same as ours. But, you know, we work with our customers to make sure that they choose our product on the basis of relationship, on the basis of service, on the basis of availability, delivery lead times, not just on the specific viscosity. And that's one element of it as well.

MR. McKENZIE: May I try to add a little on to that, too? If we look at two, maybe three different sectors of industries and applications, and looking at, perhaps, different visions of the CMC of either Aqualon or us. If you look at some of the big blending houses that supply the food industry, and for

ice cream, they will have particular specification criteria that they will put into a multihydrocolloid blend. So therefore, there is less specialism development for those types of products, because they are looking at very, you know, key formulations that can be substituted with other hydrocolloids.

If we look at the oil drilling industry, depending on where in the world you're going to drill, the composition of the mud, how deep the well is, you know, is it a top hole? Is it a bottom hole? There will be a temperature gradient. So therefore you can't just look at the same product will work in every single drill or well that you're trying to drill. It's very much more specific in terms of what is that particular functionality we have to derive. And we do a lot of these internally developed fluid loss testing and shale inhibition tests in our labs in Finland to make sure that specific product matches our specific requirement.

If we look at the toothpaste industry, which I always like to use the toothpaste industry as an example, because they go through the whole gamut of everything -- stability, binding, water holding, flowability, reology, and they're a great example. As that toothpaste becomes more complex because of the

ever increasing demand for, you know, marketing, you know, Colgate wants to compete with Proctor, who want to compete with GSK. In the marketplace more and more toothpaste can now get ever more complex, ever more striped, ever more covered with dots, ever more on things for gingivitis, where you have a triglycine (phonetic) takeup you have to measure, all of these have to be factored into the specific products that are produced.

And as Steve related earlier, we have very -- developed very specific products in toothpaste, in particular the stand up, but also created the clear gel capability and all these come through from the manipulation of the cellulose backbone. So you can have specialisms and you can have, you know, a commodity style business competing in the same -- in rough markets.

MR. BENEDICK: But are they competing for the same customers?

MR. McKENZIE: No, it would be different customers.

MR. BENEDICK: Different customers?

MR. McKENZIE: Yes.

MR. BENEDICK: With that in mind -- let me just throw out this question -- how appropriate are

the product specifications for the four products we have in the questionnaire for pricing, keeping in mind that we use this pricing data to compare prices of the domestic and the subject imported product. So we try to get as close to an apples to apples comparison when it gets to the product characteristics, as we can.

MR. CLARK: The industry witnesses can expand on this, but it's the point that Mr. Bodicoat referred to earlier. The product specifications, products one through four that appeared in the questionnaire, as he put it, described fundamentally a football field. There are a lot of positions and a football field covers a lot of categories.

So what you have is the broadest version of a parameter. Within that parameter, within that specification, there are numerous additional characteristics -- production processes, additional specifications, formulations, chemistries that fall within the base specification, but you're missing all of the extensions that, to us and to our customers, drive the buying decision and because of the value in use. What does it yield by way of performance, by way of output, by way of market acceptance. They also bring value.

So you've got -- at one level you could say

they're all apples, because they're equally broad. But in the basket you have now captured so many different types of apples that you really, I don't think, can look at the two baskets and say that you have, for example, equal weighting of the various sorts of apples that meet the specification.

MR. BENEDICK: When you say that, are you saying that there are a lot of different products within -- for instance -- product one, some of which have higher prices, some lower?

MR. CLARK: I'll let the industry answer the question, but my short answer is yes. They can elaborate.

MR. BENEDICK: Okay.

MR. McKENZIE: Yes, within the product ranges, each of these, we have many different types of products. And when I saw the product descriptions, it reminds me of sometimes we get quotes in from Turkey by fax, and can you quote for 100 tons of this and 100 tons of this, but it doesn't actually tell you what they want. They just want same, same.

There are many -- if we look in the reverse order, if we're looking at product four and the oil field, the key case in point is a degree of substitution from .8 to 1.5. That is so wide that you

would run into major problems. The oil field works in a hostile environment. It's a very high salinity, high temperature area. And we know we cannot change nature, but what we're trying to do is cheat nature a little bit by the degree of substitution and how we substitute the backbone, we can prevent attack by the alkalinity, from chopping the molecule, to minimize the viscosity. And it's a water holding capability.

So therefore, if you put a CMC at .8 in the hole, it's not going to work. So there are certain minimum degrees of substitution and minimum characteristics that is so broad, in oil, that you couldn't work it.

MR. BENEDICK: I just want to make clear that, okay, product four would include a lot of different products. Would those products carry different prices from each other?

MR. McKENZIE: Yes, they would, because they are derived from different types of cellulose and also different processing conditions, so they would have different prices.

MR. BENEDICK: Okay, let me ask Mr. Malashevich, because you've seen many cases here. Would you call these prices, what we're getting, or something closer to unit values, where you have

compositional changes from period to period.

MR. MALASHEVICH: Certainly the latter. There may also be grounds -- well, hopefully we will avoid a final phase of this case, but in the event there is a final phase of this case, there are grounds for differentiating perhaps by channel of distribution and by customer size.

MR. BENEDICK: Okay.

Mr. Neeley, Mr. Piotti said that he sold to S&G, a distributor. He also said that his customers don't compete with Aqualon and their product. Why doesn't the distributor sell in competition against Aqualon, thereby the Mexican product competing with the domestic product.

MR. NEELEY: I guess there's two parts to our answer to that. The first part is that we don't know exactly who S&G does sell to, because, you know, in limited circumstances. They don't want to tell us because they don't want us to go directly to the customer.

The second part, though, is that we view that, regardless of who S&G is selling to, as a channel of distribution into which Aqualon cannot sell. As we explained, S&G is a distributor that previously had bought from Noviant. If they don't buy

from us for some reason they're going to turn to other imports. It's a channel -- it's a distinct import channel of distribution which is unavailable to Aqualon. So we think for that reason we're in a very different situation then, say, companies that would sell directly to manufacturers.

MR. BENEDICK: Well, if Aqualon sells direct to the end user, then presumably S&G is selling to end users. I think that's a fair assumption.

MR. NEELEY: I think that is a fair assumption.

MR. BENEDICK: Then they could conceivably, be competing with each other further down the distribution chain.

MR. NEELEY: That may be. We don't know the answer to that. But what we're saying is that our sales are unique into a particular channel of distribution, that those are going to be imports, regardless whether they're our imports or Chinese imports or whatever.

MR. BENEDICK: Got you. Okay, another question. Do you agree with what was said this morning about the length of a qualification of somewhere between two and six months, two months being the typical, six months being the outlyer?

MR. McKENZIE: In the industry which I work hard with, no, that's very much not the case. I would say here the minimum we're going to achieve is three months. Typically it's from 12 to 24 months.

MR. BENEDICK: That's typical? Twelve to 24 months?

MR. McKENZIE: And in a lot of these, the oral care areas, wound care areas, even in some food areas because of stability issues or you're trying to develop very specific functionalities. That is very typical because all of these things have to go through aging tests, sometimes go through consumer sensory panel testings, all of which takes time.

MR. BENEDICK: Is this in competing against someone else's CMC or competing against an alternative to CMC?

MR. McKENZIE: It can be both.

MR. BENEDICK: Or is it a new product where they're trying to --

MR. McKENZIE: It can also be that.

MR. BENEDICK: And that would still be in that 12 to 24 month time frame?

MR. McKENZIE: Twelve to 24 months, yes.

MR. BENEDICK: Okay. Thank you.

Those are all the questions I have. Thank

you very much.

MR. CARPENTER: Go ahead.

MS. FORESO: I have no questions, thank you.

MR. CARPENTER: Mr. Mehta?

MR. MEHTA: I have the same question which I posed to the Petitioner. In the producers' questionnaire the Commission asked the producer to provide asset data to compute the domestic industry return on investment based upon asset data. As you know, the return on investment is an indicator mentioned in the statute. If you have any suggestion or recommendation to compute return on investment or any other basis, please comment now or provide it in your post-conference brief.

MR. CLARK: We will endeavor to respond on return on investment analysis for the domestic industry in the post-conference brief.

MR. MEHTA: Thank you.

MR. CARPENTER: Ms. Mazur?

MS. MAZUR: Thank you. I just have one question. We have essentially five manufacturing plants represented here today. Could each of you just describe for us as Mr. Herak did this morning about your production runs? How you schedule them, what kind of volumes you have. Mr. Reid, you mentioned

small batches that you can produce. Can each of you describe, in the five plants that are represented here, how you schedule your productions?

MR. REID: I can go first. Our plant in Holland has two production lines. One is a purified line and the other is what we call our flex line. It was just a recent investment about two years ago. That line has the ability to make either technical or purified CMC. We also have a second plant that's not involved. That's in Italy, but that only makes technical grade CMC. That's actually our bigger plant.

We try, as everyone does these days, not to have too much inventory on hand to tie up capital. So we try to have a very flexible production schedule. We try to work with our customers with forecasting as much as possible. Of course, that doesn't always happen, so we tend to be able to -- our manufacturing process reactor is relatively small. We can make small runs. We don't have to produce, you know, 50 or 100 tons of a particular product to make it a reasonable run. We can make as little as 10 tons. So we try to schedule our production according to our orders, so we typically do not just produce and put in stock. It ties up too much capital and you always get

the wrong product mix when you try to project what you're going to need. It never works out that way.

And then also, if we have an emergency from a customer, you know, we can change our production schedule and rearrange it according to the demands of the market.

MS. MAZUR: I'm sorry, if I could, before other people respond, how long is a typical production run, would you estimate?

MR. REID: Well, I think if you -- and I'm not an expert on the production, but I think if you look at the cellulose from the time you start feeding it into the grinders to the time it's going into the bags, I think that process takes several hours. I would say about two hours.

I don't want to divulge the size of our reactors, but you know, you get so many tons per hour in this type of process, it's a semi-continuous process.

MR. BODICOAT: We are very similar to what Jim said there. We work with our customers so the salesmen get sales forecasts, the sales forecasts we turn into a demand plan, and then with our resource planning we turn that demand plan in to factory scheduling. We have a more complicated production in

terms of the three sites and the number of lines. I really don't want to say exactly the number of lines, but we can tell you that later.

But each product, through the enterprise resource planning, is allocated to a line. And we then take that demand solution forecast with the customer lead time and run that product, and it's a mixture of made to schedule and made to order. So we operate both those, because, you know, if we're making a similar type of product, but it's only the bag size that's different, then we might do longer runs if we know there's another scheduling opportunity somewhere else down the line. So that's pretty much how it is.

MR. PIOTTI: As I said before, we have two lines of CMC production, one for technical grade and the other for purified grade. But our production is different from Noviant, Akzo and Aqualon production. At the moment we are producing with the dry process, not the solvent process. For this reason we started a project two years ago to change the line of purified CMC and to start to produce with the solvent process, because the solvent process -- in the solvent process you can obtain a better quality. You can obtain or use the consumption of reactives as caustic, as monoflorocitic acid. You can produce a high degree of

substitution at better cost. Unfortunately, we don't have enough capital and the plant possible start in 2006.

MS. MAZUR: Thank you. That was very helpful.

Someone mentioned the potential for 1,300 possible products when you start to talk about the size of the bag, et cetera. We're not talking about 1,300 different production runs, for example, to produce those products, are we?

MR. BODICOAT: No, it's not. It wouldn't be 1,300 production runs, because some of those would differ by the packaging or the pallets or stuff like that. But in terms of orders -- I don't know how many orders we have, but it's immense. It's a lot of orders. I mean, you have this semi-continuous process, but you are altering what you produce in terms of this product's come in, this product's come in. So it's difficult to be discrete about it comes in here and it comes off there, because there is grinding, particle size, and everything else, which will then form a different product again.

MR. CLARK: In the post-conference brief one of the things that we'll do is elaborate on this, and we can look at it from the standpoint of the

number of formulations, discrete formulations, particle size, combinations. It's effectively the bill of production material, but that is proprietary.

MS. MAZUR: That's exactly what would be very, very helpful.

MR. CLARK: Sure.

MS. MAZUR: Likewise, Mr. Lebow, in your post-conference brief could you kind of address this issue as well from Aqualon's point of view in terms of being a bit more specific about its production processes in terms of scheduling and runs and orders fit into that, please?

MR. LEBOW: Yes.

MS. MAZUR: Thank you.

Those were all the questions I had.

MR. CARPENTER: Thank you, once again, gentlemen, for your testimony this afternoon and for your careful and patient responses to our questions. At this point we'll take a short break until about -- we'll resume at 2:15 by the clock in the back, and go to the closing statements, ten minutes for each side, beginning with the Petitioners. Thank you.

(A brief recess was taken.)

MR. CARPENTER: Back on the record.

Mr. Lebow, feel free to begin whenever

you're ready.

MR. LEBOW: Thank you again, Mr. Carpenter. Respondents have spent the past couple of hours trying to distract the panel from the basic fact in this investigation, which is that they have come to the largest volume users in the United States of CMC and have increased their share at those producers on the basis of price.

The last little while they even tried to discredit your data collection by suggesting that your product categories were somehow overly broad or incorrect. But the product specifications for the pricing products used in the questionnaire are based on their own sales literature. Product one is Cecol, made by Noviant, 30,000. Product two, Cecol 300. Product three, Thinfix 300. And these are grades which they refer to in their literature, Exhibit 13 to the Petition, as standard grades of Noviant CMC.

There may be, you know, fine tuning and blending, but the fact is that what they do and what Aqualon does is the same. They sell a certain number of basic grades which they then work with the customers, where necessary, to fine tune to the customer's specific needs and desires. And the customers -- as you see from the customer we had here

and from others -- the customers can and do buy from both. And what drives the customer choice is price.

Because, I mean, it is strange, if there is all this special value from use and value and that drives the customer choice, why the value is all significantly higher in Europe and in Mexico than it is in the United States.

Now, in addition to trying to distract from the basic point, Respondents have thrown a number of spots on the wall, and I just want to click them off. One is that non-subject imports are the cause of injury. Well, subject imports exceed non-subject imports by a ratio of about four to one.

Then they say okay, well, the problem is other hydrocolloids are the problem. But other hydrocolloids are substitutable only in certain uses, only in the margin, and only in certain price conditions. And many of those other hydrocolloids are at much higher prices. Certainly many on that list of 25 that we've seen, and xanthan gum being one of the most frequent alleged substitutes, at a higher price.

You know, your question was never answered when you asked Respondents how is it that on the one hand each one of these little CMC specifications and grades, you know, is exactly what they produce, and we

can't produce it, and the customer needs exactly that. And yet, on the other hand, how is it that there is all this substitution risk, not even from other CMCs, but from other hydrocolloids. You can't have it both ways. And they never answered your very perceptive question about whether they were trying to have it both ways.

Regarding volume effects, we do not accept Mr. Malashevich's contention that there are no volume effects. If you look on a four-year basis you'll see from the beginning of the period to the end, there certainly are volume effects. And these demand effects that come from oil field cyclicality, or other factors in the market cited by Respondents, these are the facts of life faced by both Respondents and Petitioners. But they are conditions of competition we all face, and does not explain why subject imports are greater than 50 percent of the U.S. market and why subject imports consistently underprice the domestic producers.

Those SEC reports, they made for nice reading, but they were for the Aqualon Division, not for CMC. CMC is less than a fifth of the Aqualon Division. Mr. Herak testified this morning that most of the other Aqualon Division businesses are doing

quite well, and hence, the SEC reports reflected that. And anything said in those reports is strictly out of context and it has no specific bearing on CMC. You need to look at the specific facts on CMC as you see from your questionnaire responses and other information you collect.

As for the price leadership, again I suggest you look at your questionnaire responses. Look at the history of the market. You can see that Aqualon was not the price leader here, is not the company which is trying to bring down the market, is not on a foolish commodity basis trying to undermine the value of its own product. It, too, tries to sell on a customer value added basis, but it's been losing out consistently at its largest customers on the basis of price.

And if Respondents' products are so much better in value and use, why are their prices consistently lower? And why are they consistently lower in the United States than they are in Europe? It makes no sense.

What they're coming to do is to buy market share largely through price in the United States. The breadth and depth of their line, the breadth and depth of the Aqualon line are very, very parallel. There

may be a few places at the margins where there is a lack of overlap, but basically they're selling an important chemical down the middle on price.

On cumulation, we've heard from the folks in Mexico that they have a limited number of customers. But they also admit that they sell to distributors, and you asked a good question, because Mr. Herak leaned over to me and said, during the course of the testimony, we compete with S&G. They compete with Mexican products throughout the United States.

Ms. Hallock was told at a meeting not too long ago that Amtex was opening a sales office in Chicago. I didn't hear anybody rebut that. We've heard people in Maryland, such as TIC Gum, say that they have received solicitations from Amtex. So in addition to the customers they have, you also have to consider their business offers and their activity in the market throughout the United States.

And for Finland, I think they said the factory mainly produces four paper grades. I don't know if that means that they can't produce others, if they aren't producing for others, if they wouldn't produce for others. But the statute doesn't talk specifically about applications. And again, you asked a question about the geographic spread, and the

geographic spread of the finished product is widespread throughout the United States and, in addition, they compete with the domestic producer and others in the paper market and throughout the United States.

Finally, on the question of threat, I think we relied on some information in the IMR report for our Mexican capacity utilization figures. And I think we're willing to stand corrected. We certainly have no reason to doubt what Amtex has said here today. But no one has challenged our position on capacity overhang from the real big gorilla here, which is Noviant. They have huge amounts of unused capacity, that could be even as much as twice domestic -- total domestic sales by Aqualon. And that's the place where the real threat overhangs this market and no one has addressed that at all.

So in conclusion, I'd just like to say that we've heard some distracting arguments from Respondents, but they haven't come back and really faced the issue here, which is that they are taking business in the United States at the largest accounts, on the basis of price. And we believe that there is a very clear, reasonable indication of material injury to the domestic industry and the threat of increased

injury in the future.

Thank you.

MR. CARPENTER: Thank you, Mr. Lebow.

Would the Respondents' attorneys come forward, please?

MR. CLARK: We will endeavor to be efficient and use ten minutes between the three of us.

For the record, Matt Clark on behalf of the "big gorilla." Mr. Lebow was just up here and he said that something that he can't explain that we haven't explained. Why are prices consistently lower, and, after all, what the Respondents are doing here is competing on price.

Several of you were not in the room when Dr. Bodicoat began his testimony. Let me repeat something that he said, because it is critically important. In March, 2003, Noviant announced a price increase in the market. That price increase failed. That price increase failed, not because Noviant undercut itself. It failed because Aqualon undercut Noviant.

Aqualon's testimony here has been we wanted to get the prices up. Noviant announced a price increase in the market, across the market. The push back came from Aqualon. So when Mr. Lebow asked the question why are prices consistently lower? Because

when others in the market -- including the big gorilla -- attempted to raise price, Aqualon not only held price but actually reduced price. And we will document this in the post-conference brief.

The bottom line here? Any injury to Aqualon is self-inflicted. Aqualon had been, by its own admission, pursuing a commoditized approach to the marketplace. They have treated customers like they were buying a commodity product. We do not view it as a commodity product. We have held up a value added approach. We can document our value added approach.

To the extent that Aqualon has suffered from its strategic decision to compete purely on the basis of price, they have failed on that, because value does matter. Filing an antidumping case, frankly, is not the way you react to bad business decisions, but that is precisely what Aqualon has done in this case.

Non-subject imports, just very briefly. Non-subject imports have been characterized as 20 percent of the market. Interesting that Aqualon doesn't seem to care about 20 percent of the market. We know from a participation point in the market that the non-subject imports are important. We will provide the information that we can on subject and non-subject imports.

And finally, on the question of cumulation with respect to Finland, the record here is really quite complete. You have the information you need in the questionnaire responses. The question that you confront is whether the subject imports compete in the market against the domestic products and against one another. When you look at those, what you will find is there is some competition in oil field and paper from Finland in the United States, but not against the subject imports. That is outcome determinative.

Thank you.

MR. GORELICK: One point made by Mr. Lebow in his closing statement or rebuttal is that the other hydrocolloids don't seem to matter because they're higher priced. As was stated -- and I want to emphasize this -- xanthan, as we heard, is falling. It may be higher priced, but it fell 50 percent. That changes the formulation as we heard from the industry participants. These are done on very product-specific formulations. What does the toothpaste look like? We showed you how the same product, the humble bagel, could have three different gums in it, depending on which a given company wanted. So we do focus on the role of the other hydrocolloids as being a source of competition and not just in theory that if you raise

the price of purified CMC what would happen -- you can see on the labels what has happened.

And finally, since Mr. Lebow seems to take the 10-Qs as being very general and perhaps not that important, let me quote the President and Chief Executive Officer of his client on April 29th for their earnings call, stating, "we still expect relatively significant revenue growth. Aqualon and Canova will be the most dramatic, Aqualon because of their increase in their capacity through the expansion projects, because they're really driving into other segments and CMC." So they obviously think CMC is doing great.

Thank you.

MR. NEELEY: Jeff Neeley on behalf of Amtex. We're here not as the gorilla, but more like the mosquito, I think. I appreciate Mr. Lebow correcting the record with regard to the supposed capacity overhang, which -- in Mexico -- which I think now he recognizes is not there. We do think that that was probably the primary reason that we were added to this case, that there was concern. The concern was erroneous, and we think we should not be here for that reason alone.

There are a couple of other things he said

that I'd like to respond to, though. One is that he noted that Respondents increased sales based on price, and that was, I think, directed again not at us at all because that wasn't the case with regard to Amtex. If you look at our sales, in fact, they've been going down. The prices -- we are totally reactive to the larger players in this market. We can't possibly be driving prices with the small number of customers and sales that we have.

I note what he said with regard to TIC Gums. And, you know, I've been puzzled throughout the day as to why they were here, because they seem to have, you know, interests that would be very different from the side that they appeared on. Whatever the reason, we found it particularly curious. And we'll address this more in our post-conference brief, but we were approached by a company called Peeltons (phonetic) on behalf TIC Gums to sell them, because they were looking for alternative sources.

For them now to come here and somehow accuse us of doing something wrong is bizarre. And we'll be glad to address that in detail in our post-conference brief.

I also agree that Mr. Benedick's question regarding S&G was a good and a valid question. I

would point out that one of Mr. Lebow's witnesses -- I don't recall which one right now, but I have it in my notes -- stated though, that a majority of the purchasers prefer to purchase directly from manufacturers and not from distributors. It is a very different channel of distribution. It is one that is purely in the case of S&G an import channel of distribution. It is going to be there regardless of whether those products are coming from Mexico or coming from elsewhere. Before they came from Noviant. And we think that it is a very indirect, attenuated competition, if at all, between Mexico and Aqualon.

So we will look forward to submitting our post-conference brief. Thank you.

MR. CARPENTER: Thank you, gentlemen, for those remarks.

Let me mention a few dates in closing. The deadline for both the submission of corrections to the transcript and for briefs in the investigation is Tuesday, July 6th. If briefs contain business proprietary information, a non-proprietary version is due on July 7th. The Commission has tentatively scheduled its vote on the investigations for Thursday, July 22nd at 10 a.m. It will report its determinations to the Secretary of Commerce on July

26th. The Commissioners' opinions will be transmitted to Commerce on August 2nd.

Thank you for coming. This conference is adjourned.

(Whereupon, at 12:43 p.m., the conference in the above-entitled matter was adjourned.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Purified Carboxymethylcellulose from Finland, Mexico, The Netherlands and Sweden

INVESTIGATION NO.: 731 TA 1084 - 1087 (Preliminary)

HEARING DATE: June 30, 2004

LOCATION: Washington, D. C.

NATURE OF HEARING: Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: June 30, 2004

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

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Signature of Court Reporter